1997 Annual Repor

METHANEX

differentiation in a commodity business

The Methanex World

(all capacities in tonnes)



than double the capacity of the vessel pictured above at our Chilean facility) which will reduce shipping costs from our "production hub" in Chile to customers in Europe by US\$1 million per voyage.

This vessel is an excellent example of how our global market position allows us to achieve economies of scale unavailable to our competitors, and demonstrates our efforts to deliver superior shareholder returns through the world-class operation of our global methanol pipeline.

The tanker is scheduled for completion by mid-1999 to coincide with the start-up of our third plant in Chile.

Motunui DII, NZ Built: 1990

Methanol Capacity: 500,000

Motunui DIV, NZ

Built: 1995 Methanol Capacity: 700,000

> Waita Built: Meth

Gasol

Motu

Built:

Meth



Corporate Profile

Methanex Corporation is the global leader in methanol production and marketing. Methanol, typically produced from natural gas, is a basic chemical building block used in the production of MTBE for gasoline, and for formaldehyde, acetic acid and a variety of other chemical intermediates. These derivatives are ultimately used in the manufacture of countless products that we find in our everyday lives, including: adhesives, paints, inks, foams, gasoline additives, silicones, plastic pop bottles, polyester, solvents, Spandex, and windshield washer fluid. Methanol is also used directly as a fuel.

Based in Vancouver, Canada, Methanex has plants strategically located in New Zealand, the United States, Canada, and Chile. Additional methanol is sourced through marketing agreements in the United States and Trinidad, and also through spot market purchases. This extensive global marketing and distribution system makes Methanex the largest supplier of methanol to each of the major international markets. In 1997, Methanex supplied approximately 27% of the total world demand for methanol.

Table of Contents

3 President's Message to Investors

Pierre Choquette, President and CEO, provides a review of 1997 performance, reports on strategic initiatives, and looks forward to 1998

8 Questions & Answers

The Company responds to questions from the investment community

11 Differentiation in a Commodity Business

Our theme section highlights the attributes that set Methanex apart from the competition, and illustrates how these attributes translate into value.

31 Responsible Care® & Corporate Governance

Responsible Care in action, and an outline of governance at Methanex

35 Management's Discussion and Analysis (MD&A)

An outlook for the industry and a review of results, liquidity, capital expenditures and risk management.

45 Consolidated Financial Statements

For the years ended December 31, 1997 and 1996

59 Annual Information Form (AIF)

The AIF, a requirement of Canadian securities regulations (similar to a 10K in the United States), provides detail on the methanol industry and Methanex

i 1997 Methanex Fact Book

Review of Methanex's financial performance and key methanol industry data from 1993 to 1997.

The information in this document contains forward-looking statements with respect to Methanex Corporation. By their nature, these forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. These risks and uncertainties include methanol and natural gas prices, competitive developments affecting the methanol industry, and other risks detailed from time to time in the publicly filed disclosure documents and securities commission reports of Methanex Corporation.

Except where otherwise noted, all dollar amounts in the Annual Report are stated in United States dollars



differentiation in a commodity business

Methanex Financial Highlights

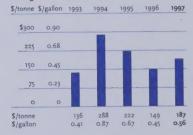
Five Year Financial Review

Earnings	and C	perating	Cash F	lows
----------	-------	----------	--------	------

(thousands \$US)	1997	Q4	Q ₃	Q2	Q1	1996	1995	1994	1993
Revenue	1,299,380	321,902	307,975	336,830	332,673	945,707	1,249,179	1,487,892	533,436
Less:									
Cost of sales and operating									00
expenses	930,850	249,733	222,674	224,969	233,474	734,122	848,256	876,175	439,488
Depreciation and amortization	117,057	27,682	26,372	31,794	31,209	114,055	97,575	74,561	57,793
Interest expense	32,423	7,743	8,106	8,327 /	8,247	20,361	32,090	30,476	23,712
Interest and other income	(34,153)	(7,614)	(12,892)	(8,281)	(5,366)	(22,993)	(22,257)	(5,333)	(2,945)
Write-down of property, plant									
and equipment	_	*****		_	_	105,000		_	_
Other, net1	_			***************************************	_	_	39,058		_
Income and other taxes	51,215	7,900	13,563	15,298	14,454	3,014	62,719	77,386	5,461
Net earnings	201,988	36,458	50,152	64,723	50,655	(7,852)	191,738	434,627	9,927
Add (deduct):									
Depreciation and amortization	117,057	27,682	26,372	31,794	31,209	114,055	97,575	74,561	57,793
Write-down of property, plant									
and equipment	_		_	_		105,000	_	_	
Deferred income taxes	40,818	8,128	8,568	12,857	11,265	4,188	26,952	30,912	3,328
Debt retirement cost		_	_	_		_	36,543		_
Other	10,665	5,086	2,935	106	2,538	8,460	9,647	4,668	(340)
Cash flow from operations ²	370,528	77,354	88,027	109,480	95,667	223,851	362,455	544,768	70,708
Increase (decrease) in cash position	108,424	(17,228)	64,730	31,330	29,592	(15,753)	207,420	106,919	(9,572)
EBIT ³	285,626	(, , ,	.,,,,			120,523	323,090	542,489	39,100
EBITDA ³	402,683					234,578	420,665	617,050	96,893

- (1) Refer to Consolidated Financial Statements for details
- (2) Before changes in non-cash working capital
- (3) Includes interest income. Excludes write-down of property, plant, and equipment (1996) and debt retirement costs (1995)

Average Realized Methanol Price

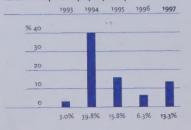


Production per share (U.S. gallons)

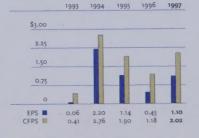


14 million shares repurchased

Return on Capital Employed (ROCE)



Earnings and Cash Flow per share



\$492 million cash

on hand



"Our strategic focus to reduce our cost structure has not changed..."

- "Réduction des coûts demeure notre point de mire stratégique..."
- "Nuestro enfoque estratégico en la reducción de costos no ha cambiado..."

「わが社のコスト構造 の縮小に的を絞った 戦略は、少しも変わ っていません」」

To Our Investors

1997 was a very profitable year. Net earnings of \$202 million (\$1.10 per share) and cash flow from operations of \$371 million (\$2.02 per share) are the second best in the history of Methanex.

Our sales volume of 6.9 million tonnes exceeded our expectations. For the third consecutive year our sales grew at multiples of global market growth, and they are now more than 40% above 1994 levels when the Methanex assets were first brought together. Clearly, the security of supply offered by Methanex has helped to differentiate us from the competition and it continues to translate into increased market share.

Pricing for methanol in 1997 defied all industry commentator projections. Although the expectation had been for much lower pricing in an environment of significant new capacity, pricing was stable throughout the year at average levels of \$187 per tonne (\$0.56 per gallon). Our global marketing team capitalized on its superior market intelligence to modify our internal supply and demand balance to adjust to the global industry imbalance created by competitor capacity additions. While our approach resulted in higher unit cash costs than planned, our tactical focus was to maximize cash margins, and this was accomplished with great success. Our strategic focus to reduce our cost structure has not changed, and we continue to make good progress in this regard.

In spite of the outstanding financial results, the value of our market equity throughout most of 1997 was below the level seen at the end of 1996. In that environment, our strong cash position allowed us to repurchase 14 million shares, thereby reducing shares outstanding to 175.6 million. We closed 1997 in a very strong financial position.

1997 Year in Review

In last year's President's Message, I emphasized that we would focus on the use of three strategic tools to create maximum value for our shareholders: low cost, global positioning and operating excellence. We have made substantial progress in each of these areas.

Low Cost

Profitable earnings growth in commodity chemicals requires a superb cost structure. Our focus is on significant strategic moves that will permanently enhance the quality of our asset portfolio and move us towards our long-term goal of a further 20% reduction in unit cash costs. We have four initiatives underway that will bring us within reach of this goal.

The construction of our third production unit in Chile is on schedule for completion in the second quarter of 1999. This \$305 million capital project is expected to significantly exceed our objectives in terms of value creation. The combination of the three production units in Chile will give us approximately three million tonnes of capacity capable of earning their cost of capital at the bottom of the historic methanol pricing cycle.

Production Hub in the Middle East

At year-end, we signed a memorandum of understanding to study the development of three million tonnes of capacity in Qatar in partnership with the state oil and gas company, QGPC. Our objective is to replicate our concept in Chile where we combine low-cost gas with scale and market access to meet all of our financial objectives. The start-up of the first production unit in 2002 would coincide with our market needs.

Additional Gas in New Zealand

The prospects for the availability of substantial additional gas in New Zealand have changed dramatically since the end of 1996. We now have a memorandum of understanding with Fletcher Challenge Energy with the objective of identifying new supplies of gas which would allow full capacity operation of our assets in New Zealand well into the future. The value creation of this potential new gas is substantial. Smaller quantities of additional gas have already been made available by local suppliers. The expectation is for a significant reduction in the overall cost structure, enhanced by the recent decline in the New Zealand dollar.

New Logistics Initiatives

In 1997, we took advantage of our global size and positioning and ordered a 96,000 dwt chemical tanker. In service between Chile and Europe, this vessel should generate savings of \$1 million per shipment, a 40% reduction compared to current costs. This vessel, the world's largest chemical tanker, will have a major impact on our overall logistics costs.

1997 Corporate Events Review

Relative to the monthly closing Methanex share price

Chile II operating in excess of design capacity.

A defined contribution pension plan established for Methanex employees worldwide.

Aarch

An international employee share purchase plan implemented. By year-end, approximately 80% of employees participating.

Announcement of a normal course issuer bid to repurchase up to 14 million shares.

Medicine Hat Plant 2 idled, resulting in a lower cost site with production flexibility between 500KT and 800KT per annum.

June 300KT off-take agreement between Methanex and Leunawerke, Germany expired and not renewed.

Methanex becomes the first chemical company in the world to receive global verification under Phase I of Responsible Care. While we continue to reduce all aspects of our cost structure, these four initiatives will have the most significant impact on our long-term cost goals and are estimated to create value in excess of \$500 million.

Global Positioning

Our main objective is to maintain the leading market position in each major region of the world. In 1997, we made progress in a number of key areas in support of this objective.

Positioning

Our sales growth in all regions in 1997 has resulted in Methanex's sales now accounting for 27% of all methanol consumed in the world. The company's global supply position offers a security of supply unparalleled in the industry and has resulted in new global supply contracts with international customers who are leaders in their industries.

Logistics Systems

We are nearing completion of a proprietary Global Logistics Information System which will support decision-making and improve the efficiency of our global methanol pipeline. This system will be in place in 1998.

Market Development

Our objective of building new markets for methanol has enormous potential, and we continue to lead the industry in this respect. However, we did not meet our immediate goal of new sales of 200,000 tonnes from market development efforts in 1997. Our focus is on diesel/methanol blends for short to medium term new growth and on the use of methanol in fuel cells for longer term growth. We have formed alliances with leaders in the development of these markets to enhance the probability of success.

3/10/1

.,

77

Entered into a memorandum of understanding with Ballard Power Systems related to the commercialization of methanol-based fuel cells.

Ordered the world's largest chemical tanker which, at 96,000 dwt, will deliver methanol from Chile to Rotterdam at roughly 40% savings.

September

Signed a memorandum of understanding with Fletcher Challenge Energy to extend the gas supply for our New Zealand assets.

October

Unplanned outage at Chile II lasted seven weeks; however, our global supply chain ensured we met all customer commitments.

Vovember

Entered into a memorandum of understanding with the Qatar General Petroleum Corporation to study the development of a 3 million tonne, multiple plant "production hub" in the State of Qatar.

December

Repurchase of 14 million shares completed, leaving 175.6 million outstanding.

Operating Excellence

We have continued to focus our efforts on a few areas of operating excellence to improve the quality of the enterprise.

Responsible Care®

Methanex was the first chemical company to achieve third-party verification on a global basis. We are proud of this achievement.

Financial and Risk Management

We took advantage of fluctuations in currencies to lock in improved cost structures in Canada, Chile and New Zealand. Through internal corporate reorganization, we have improved the tax treatment on our global cash flows, thereby creating substantial value for our shareholders.

People Leadership

We continue to operate our global business with fewer than 900 people, one of the highest ratios of market value per employee in the chemical industry. By continually improving the leadership skills of all those in a coaching role, we can maintain this high standard. In 1997, more than 75 of our leaders participated in external leadership training.

At the Corporate Leadership Team level, three new executives were appointed in 1997: Jim Emmerton as Vice President, General Counsel and Secretary; Allan Cole as Vice President, Finance and Chief Financial Officer; and Bruce Aitken as Vice President, Asia-Pacific.

Looking Forward

Our strategic review in 1997 confirmed that we can create superior returns by focusing on the world-class operation of a global methanol business. We are confident that we can achieve our financial objectives both in terms of return on capital employed and cost structure. We also expect that our global positioning will allow us to grow at least at the rate of global market growth. The combination of these factors has resulted in the setting of a new and demanding growth objective of 15% per year in earnings per share over the methanol cycle. Our strategic actions are aimed at delivering on these objectives and our fundamental strategy of low cost, global positioning and operating excellence remains unchanged.

- "... a new and demanding growth objective of 15% per year in earnings per share..."
- "... un nouvel objectif ambitieux d'augmenter le retour par action de 15% par an..."
- "... un nuevo y
 exigente objetivo de
 crecimiento de 15%
 anual en ganancias por
 acción..."

「一株あたり収益に 年間15%という 厳しい新成長目標_」 Looking forward, we expect 1998 to be a challenging year. Delays by competitors in completing new capacity builds will result in significant additional supply impacting 1998. This will come at a time of great uncertainty in Asia and the combination of these two factors will likely have a negative impact on methanol pricing. Our global flexibility will enable us to achieve maximum value in this challenging environment.

Other major areas of focus for our leadership team in 1998 will be the timely progress on the third plant in Chile, the conclusion of studies and agreements for our next production hub in the Middle East and the ratification of new contracts for additional gas to support our New Zealand assets.

On behalf of all our employees, I want to thank you for your support and confidence.

Sum Chaquette

Pierre Choquette

President and Chief Executive Officer February 25, 1998



Corporate Leadership Team

Left to right: Bruce Aitken, Vice President, Asia-Pacific; Rodolfo Krause, Vice President, Latin America; Mike Wilson, Executive Vice President, Global Marketing and Logistics; Allan Cole, Vice President, Finance and CFO; Pierre Choquette, President, CEO and Director; Jim Emmerton, Vice President, General Counsel and Corporate Secretary; Saj Maqsood, Vice President, Corporate Development; Ron Britton, Vice President, North America; Cathy Ebbutt, Executive Assistant to CEO; John Gordon, Vice President, Human Resources and Corporate Affairs.

[questions & answers]

Bob Hastings, Goepel Shields, Vancouver How exposed is Methanex to the current events in Asia?

Approximately one third of our sales are into the Asian region, and some 50% of those are into Japan and China, meaning that only one sixth of total sales are directly exposed to the most affected (as of February 1998) Asian economies.

In the latter part of 1997 we saw no changes in Asian demand or pricing. This was probably for two reasons; (i) insulation from the early currency turmoil as our methanol sales and our customer's derivative sales are both denominated in U.S. dollars, and (ii) a lag as any methanol demand impact works through the often long value chain between consumer goods (first affected) and methanol's use as a derivative feedstock (last affected).

As we move through 1998 there is potential for Asian regional supply to exceed demand due to the new plant start-ups in Saudi Arabia (Ar Razi-III) and Indonesia (PT Kaltim). Demand may also be impacted by the inability of customers to provide sufficient security against payment for their methanol orders.

A sustained Asian downturn would be expected to impact all regions, both through the global nature of the methanol business and through Asia's interaction with other world economies. In the event of a downturn, we believe that we are well-placed due to our supply flexibility, our global presence, our high proportion of contract sales, our demand forecasting methods and our market intelligence. Our sales contracts mitigate volume loss, and switching from purchased to produced product reduces our costs and cushions the impact of price erosion.

Miranda Hubbs, Gordon Capital, Toronto

Does the proposed reduction of greenhouse gases [imposing
flaring restrictions] provide an opportunity for Methanex to tap
low-cost natural gas reserves for future expansion?

There are large quantities of associated (with oil) natural gas being flared around the world to allow oil recovery, typically offshore and often in remote locations. We have looked at opportunities for utilizing flared gas, but have found that any gas cost advantage is typically offset by higher capital costs and risk. Overall, our experience is that gas producers not facing flaring restrictions have offered such gas, at best, on the basis of recovery of their expenditures.

The Statoil methanol project at Tjeldbergodden in Norway, which started up during 1997, is probably the only example to date of methanol production being installed to address the gas flaring issue. The Statoil plant reportedly cost in excess of \$500 per tonne of capacity to install, partly due to its remote location, and a similar amount was reportedly spent to bring the gas from offshore to the plant. The implied Statoil gas cost is higher than we have achieved in Chile and elsewhere, and our Chile projects have cost only \$300 per tonne of capacity.

We sense that there is increasing pressure for producers to reduce gas flaring, and methanol is one option. But there are also other options, such as LNG (liquified natural gas) or synthetic fuels production. We believe that some of this gas might prove economically viable for methanol, and are advancing technology and market developments to access these gas reserves and secure the methanol demand. In fact, our own proprietary technology development is oriented towards accessing more remote (and often flared) gas reserves.

Ken Greenburg, Oppenheimer Capital, New York
Much of the new gas discovered around the world, such as in
Indonesia and Thailand, is at best currently excess if not
stranded. Isn't there a risk that some producers will treat this
gas as "by-product" and that it will be sold at any price and
allow new low-cost entrants who will erode methanol
profitability?

While much of the world's non-associated (no oil) gas reserves might be classified as "distressed" or "stranded," we have not seen this gas available at discounted prices – this makes obvious economic sense. Options for associated (with oil) gas also include flaring and re-injection.

Our experience is that non-associated gas reserves have been used by countries either as a domestic energy source, for export as LNG, or to establish in-country gas-based petrochemical industries to grow the local economy. Domestic use tends to command the highest price for gas, followed by electricity generation, then LNG, while petrochemicals tend to be able to support only the lowest gas prices. Petrochemicals, such as methanol, therefore tend to be the least attractive gas utilization option.

Gas availability and commercial terms are not the only considerations when developing a project – proximity to the methanol markets, labour availability, political stability and infrastructure costs must also be considered. Methanol

cyclicality, operating know-how and market access are all key, but there are no real barriers to entry into the methanol business. And so our strategy to relentlessly reduce costs and be the industry leader recognizes the challenges of our industry and should allow sustained profitability for Methanex.

Erica Belling, Newcrest Capital, Toronto

MTBE has recently come under significant scrutiny in California
as a result of the groundwater controversy experienced there.

How does this impact Methanex?

The California MTBE (methyl tertiary butyl ether) issue is perhaps one of our most frequently asked questions as MTBE consumes a significant portion of our sales. We continue to believe that MTBE is an excellent product, and that it is largely responsible for the recent marked air quality improvement and compliance not only in California, but also elsewhere in the U.S.

We also believe that it is unfortunate that such a proven and extensively tested product has become the subject of partisan political attention, causing uncertainty for the industry and undermining the progress made towards cleaner air in California. While it is true that tests on some water reservoirs or aquifers have detected traces of MTBE, this is most likely due to leaking gasoline tanks, gasoline spills, or by pleasure craft. Banning MTBE only treats the symptoms, it does not address the root causes. Our belief continues to be that common sense and science will prevail over politics, and we hope that the new round of studies currently underway in California and scheduled for completion by January 1, 1999 will confirm previous work, resulting in yet another endorsement for MTBE.

And while California has attracted most of the MTBE press coverage, some broader context is probably appropriate. Phoenix opted into the Federal RFG (reformulated gasoline) program during 1997, and other areas currently considering opt-in include Atlanta, St. Louis, Birmingham, Kansas City and much of Texas. Elsewhere, MTBE usage in gasoline to reduce emissions and/or replace harmful materials such as lead and benzene continues to grow in Europe, Asia and Latin America. A joint venture in Saudi Arabia recently announced their intention to build the world's largest MTBE plant, while the Oatari OAFAC worldscale MTBE facility reportedly began construction late in 1997. These plants alone will consume some 0.5 million tonnes of methanol annually. MTBE's expanding global use and the continued capital investment in MTBE echoes our confidence in the product's future, contributing to safer gasoline and cleaner air.

Edwin Chee, Nesbitt Burns, Toronto

Chevron, Tosco, Exxon and Texaco are seeking an amendment to the Federal Clean Air Act to exempt California from having to use oxygenates in reformulated gasoline. What alternatives are there for gasoline refiners to produce clean burning fuels which meet the emission requirements under the Clean Air Act?

We have seen reports that refiners have blended non-oxygenated gasolines to meet the Clean Air Act emissions standards, but we also understand that several such fuels using low-sulphur or low-RVP (Reid vapour pressure) blends have failed to deliver the air quality sought under the legislation.

Our view of the oil company involvement in the California MTBE issue is that it's not the product at issue – the oil companies have been using MTBE as a source of octane¹ for their gasoline since the 1970s. We believe that they are protesting the oxygenate mandate and seeking flexibility to meet the standards. If the mandate was lifted we might expect MTBE to continue to have a significant role in California gasoline both as an oxygenate and for octane purposes.

Jim Milton, Newcrest Capital, Toronto
A principal variable in Methanex's fortunes is methanol
demand. How does Methanex arrive at its demand forecast and
reconcile the fact that its internal demand forecast figures are
typically more bullish than those of industry commentators?

We continually maintain a sophisticated methanol demand review and forecast as part of our coordinated marketing approach. This considers final consumer parameters as well as those factors impacting any intermediate derivatives – e.g. technology developments. We believe that market intelligence is key to both forecasting and understanding demand. And since Methanex is the only global methanol participant with an everyday presence in each market, our market intelligence is second to none.

We do not attempt to reconcile our demand forecasts with those of the industry commentators, but we do reconcile differences in our actual and forecast demand. Year upon year we have enhanced our understanding of demand, and our recent growth, at two and three times the market rate, is perhaps a good measure of the success of our coordinated marketing approach.

Looking towards the immediate future, we see Methanex growing at least with the market, which we expect to grow at 4-5% per year prior to adjusting for any possible Asian impact. And these growth figures exclude any contribution from our strategic market development initiatives.

^{(1) &}quot;octane" is used in broad terms to denote the "octane number" specification commonly associated with gasoline.

Our growth for 1997 was again better than twice that of the industry. This is not a deliberate strategy, but has largely been due to customer demand stemming in part from the poor reliability of our competitors. Our plant on-stream factor is approximately 95%, compared to the industry average of less than 90% of installed nameplate capacity.

Our expectation is that 1998 will see flat sales volumes, or even a slight decline, and our forward plan is to grow at least with the industry. Our operating targets of 14% ROCE and 15% annual earnings growth (using 1996 as the base year) across the methanol cycle are achievable at these growth levels. The continued reduction in cost structure and an increasing proportion of sales from our own production are also key factors in achieving our financial targets.

High reliability also allows us to make the majority of our sales under contract (versus spot), providing a level of certainty for our plant production levels and hence optimum cost structure and logistics. And our high level of contract sales means that, in a downturn, we should not suffer both volume and price erosion simultaneously.

Looking further ahead, our market development activities should provide us a "first mover advantage" in new demand sources such as fuel cells and diesel/methanol fuel blends.

Lyle Stein, Sceptre Investment Counsel, Toronto
Methanex has accumulated significant cash on its balance
sheet, more than is required for its capital commitments. How
does Methanex decide between cash retention for future capital
expenditure on the one hand and distribution (for example, via
share buy-back) on the other?

Our operating mandate includes three clear principles; (i) a conservative balance sheet to reflect the cyclical nature of the methanol business, (ii) a priority for strategic investments to be funded from existing liquidity, and (iii) to return excess cash to our shareholders, and in this last regard we have shown a preference for share buy-backs.

When considering a share buy-back we apply the same criteria and analysis as we would for a capital investment – this discipline ensures maximum value creation. For example, our 1997 buy-back of 14 million shares at C\$12.50 per share effectively bought capacity at approximately \$270 per tonne, which is significantly better than our investment criteria of less than \$350 per tonne.

Retaining cash has allowed us to fund expenditures from existing liquidity, and this provides a level of independence from the capital markets, ensuring maximum investment timing flexibility.

A related operating assumption has been that we also need to retain cash to ensure liquidity in the event of a prolonged and unexpectedly low trough in methanol pricing. This assumption is perhaps becoming more conservative as we achieve our strategy of reducing our cost structure.

Christine Farkas, Midland Walwyn, Toronto
With the Ar Razi plants [Saudi Arabia] and Statoil [Norway], we
have seen a tendency for the industry to build larger plants.
How does this change the industry cost structure?

The three major determinants of cost structure for a global player such as Methanex are natural gas, conversion and transportation costs. Plant size affects mostly conversion costs, and also impacts finance charges.

The annual capacity of the average plant in the methanol industry is under 300,000 tonnes, while the average of the last five plants built (excluding our Chile II plant) is 670,000 tonnes. These capacities compare to 925,000 and 975,000 tonnes for our Chile II and Chile III plants respectively – the largest plants in the industry – and a million tonnes per plant for our planned Qatar project. Our large plants, coupled with the leverage we achieve through our "production hub" strategy, provide for excellent distribution of cash fixed costs and reduction in conversion costs. And we are also pursuing technology options that will allow us to build even larger capacity plants to further reduce our conversion costs.

The industry pricing structure is also an important consideration. Historically, the U.S. Gulf Coast methanol producers have set a floor price for the industry based on their cash cost (which is largely represented by gas cost). At a \$2/mmBtu gas cost, this floor is approximately \$115/tonne or \$0.35/gallon. The industry pricing structure at the bottom of the cycle should not be affected while this region continues to set the floor price.

Differentiation in a Community of

Methanol is a commodity, which means that our methanol is just the same as that of our competitors, and so in order to distinguish ourselves we need to look beyond our physical product. We achieve this differentiation in several ways:

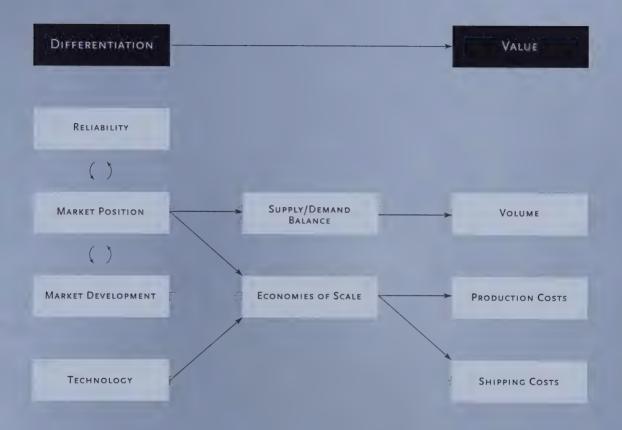
- important to our customers, we provide the industry's most secure methanol supply
- in the marketplace we are the leader, being both the largest supplier and three to four times the size of our nearest competitors
- we are providing further leadership by identifying and developing or supporting new methanol demand
- we have, by far, the most extensive methanol plant know-how and operating experience in the industry

These attributes – reliability, market position, market development and technology – are key aspects of Methanex's approach to the methanol business.

Others may be able to emulate one or more of these attributes, but none in the methanol business, and few in the commodity chemicals sector in general, are able to deliver on all of them simultaneously. The successful combination of these attributes – as we have exemplified at Methanex – results in beneficial synergies and proves that the sum is worth more than the parts.

The earnings equation in the methanol business is much the same as any other business: price less production and shipping costs, multiplied by volume. These variables – volume, price, production costs and shipping costs – constitute the major value drivers in our business.

This year's annual report highlights Methanex's differentiating attributes and shows how they relate to our value drivers.



The diagram shows the translation of differentiation into value, beginning at the left side with our differentiating attributes and moving towards the value drivers at the right. For example, market position allows us to build the largest plants, achieving economies of scale that reduce production costs and capital charges. Likewise, reliability tends to directly increase our sales volume, and the resultant increased market position allows us to better respond to the industry's supply/demand balance. This second example also shows the kinds of synergies that exist.

The only attribute at the left which can significantly impact all value drivers is market position, and Methanex's market position in methanol is unrivaled!





We provide security of supply to our customers in three ways – with our global production and logistics system, by consistently supplying on-specification product and with our plant operating reliability.

Complementing our own production, we source methanol from Trinidad through an off-take agreement and from elsewhere through spot methanol purchases. These supply sources are either in-market or connected to terminals in the major markets. Our methanol is shipped by our fleet of time charter vessels and dedicated railcars or by short-term transport arrangements. We refer to this combination of supply and logistics capabilities as our "global methanol pipeline," which is depicted on the inside front cover of this report.

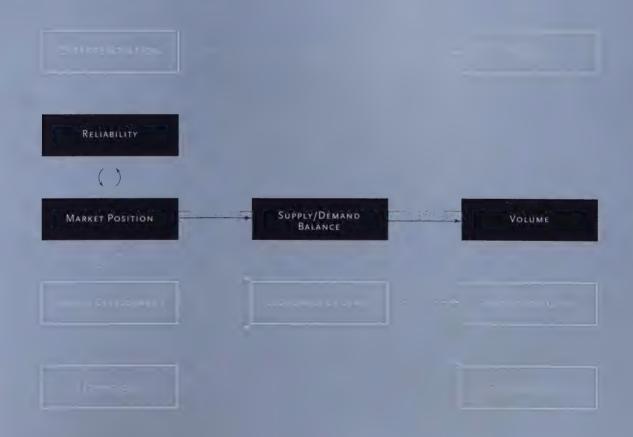
Our global methanol pipeline is managed using customized logistics systems to ensure that we meet the needs of our customers in the most cost-effective manner, creating customer satisfaction and loyalty, and economic benefit to Methanex. Our response to the seven week Chile II outage in 1997, when we met all customer commitments, is an excellent example of our global methanol pipeline in action.

Single-plant competitors have tended to call *force majeure* when they experience supply interruptions, effectively abandoning their customers. We have been able to respond to such opportunities, gaining new customers and benefiting from higher prices due to tightened supply.

Our plant on-stream factor has averaged approximately 95% over recent years, significantly better than the industry average, and contributing to the effectiveness of our global methanol pipeline. This high level of reliability allows us to conduct almost all of our sales on a contract basis, hence minimizing our exposure to production and sales volume uncertainty.

Our supply reliability will be enhanced by future supply additions, such as our project in Qatar, which will help meet our growing demand.

Reliability results in increased sales volumes, enhances market position and allows us to better respond to changes in the supply/demand balance.



[market position]





Building the World's largest methanol plants, and a 96,000 dwt vessel, gives us the best economies of scale in the business.

Market position, including market share and intelligence, is perhaps the most important of Methanex's differentiating attributes because it impacts each of the value drivers. Market share provides the scale needed to execute our leadership strategy, while market intelligence is both a competitive advantage and an important resource in operating our global methanol pipeline.

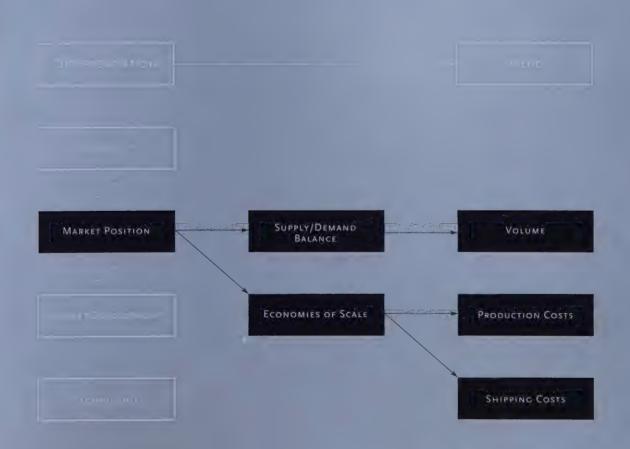
Methanex is the world's only global methanol company, and we have the largest market share in each of the world's major markets. This position allows us to obtain the best market intelligence, the data to evaluate and implement actions to respond to changes in the supply/demand balance, and the ability to attract globally growing customers.

Our market position also allows us to build the world's largest plants – this is important due to the "economies of scale" achieved. While our individual plants in Chile are already the largest in the world, the multiple-plant "production hub" strategy that we are implementing in Chile (and elsewhere in the future) achieves further economies of scale by leveraging the site's infrastructure and fixed costs.

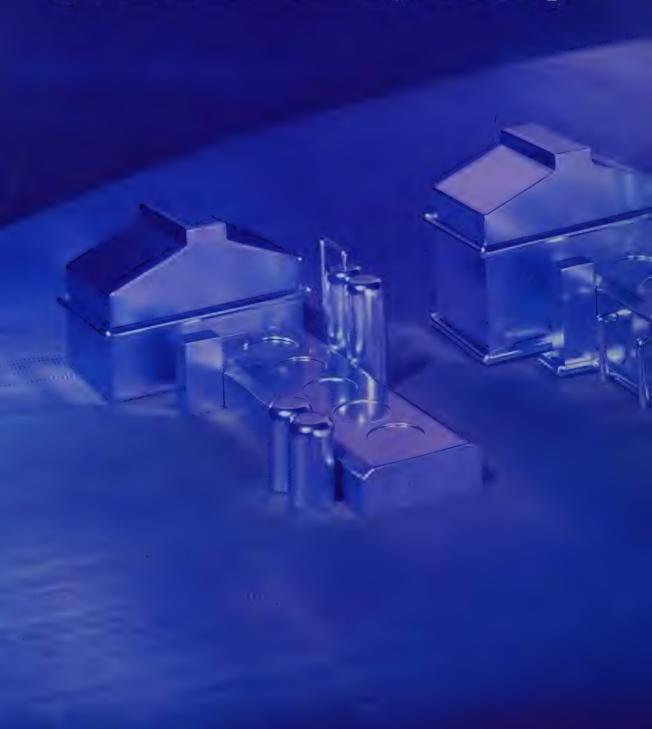
Market position also enables us to build the world's largest chemical tanker – a 96,000 dwt vessel that is twice the size of the next largest methanol tanker. There are two requirements to use such a large vessel, and they are both related to volume. The first is having enough capacity to fill the vessel, which the Chile "production hub" achieves, and the second is having sufficient demand at the point of discharge, which our market position achieves.

Methanex's market position is substantial, and it will be enhanced by our on-going development of further methanol production and demand opportunities.

Market Position means volume and generates economies of scale to reduce production costs and shipping costs.



[market development]





Leadership in action, developing new methanol demand growth for the future.

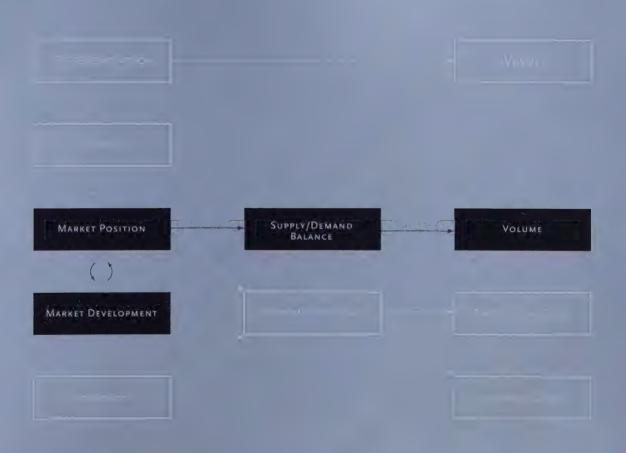
Prior to the creation of Methanex, the methanol industry lacked leadership – a role that Methanex now clearly fills, including market development for future demand.

Methanex has continued to support and promote the California fuel methanol program, maintaining and enhancing the methanol infrastructure required for a new generation of vehicles powered by fuel cells. Methanol has been proclaimed by many as the fuel of choice, and prototype fuel cell vehicles using methanol for fuel are already on our roads. Our memorandum of understanding with Ballard Power Systems positions Methanex with the leader in this field. Each fuel cell vehicle should consume approximately two tonnes of methanol per year, and so just the Daimler-Benz target of 100,000 vehicles per year from 2004 onwards equates to almost 1% of the current global methanol demand.

Also in the fuels sector, our diesel/methanol blend tested in buses in Santiago during 1997 produced approximately a 50% reduction in particulate emissions. We are continuing with laboratory-based engine wear testing and further field tests in other regions at the request of local governments. Methanol and diesel do not mix naturally — a proprietary emulsifier is required to blend them, and we enjoy a privileged position to access this emulsifier. A city such as Santiago could consume approximately 30,000 tonnes of methanol per year as diesel/methanol in its buses alone, and first sales could be as early as 1999.

While it would not be reasonable for us to expect to capture all incremental methanol demand resulting from these market developments, we should expect that our leadership will result in "first mover advantage" and the subsequent retention of a market share at least in proportion to our market position.

Market Development grows demand, and increased volume enhances market position.



[technology]





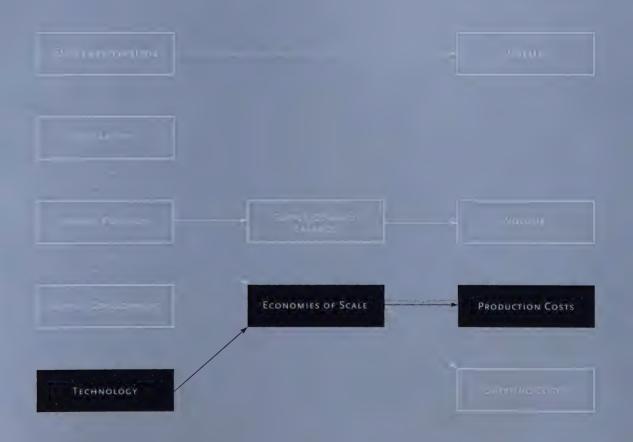
Reliable plants, operating know-how, and innovation all deliver significant cost reductions.

Our 95% on-stream factor and our highly successful execution of the Chile projects are probably the most tangible examples of our technological prowess. Chile II started up just six weeks after mechanical completion and was operating consistently above nameplate capacity within two weeks of start-up. Recent competitor projects have not been nearly as successful, experiencing delayed start-ups and operating problems.

All existing plants in the methanol industry are based on technology licensed from third-party technology vendors. Methanex's current plants also include the benefit of our more than 120 plant-years' operating experience and several proprietary enhancements.

We have also been developing our own proprietary process flowsheet, reconfiguring the conventional technology to best utilize Methanex's experience and know-how. This development, exclusive to Methanex, has been undertaken in partnership with a leading technology vendor. Results to date indicate significant capital and operating cost reductions and greatly improved scale-up, creating the potential for lower costs and larger plants in the future.

Technology underscores plant reliability and reduces production costs through improved economies of scale.



The interrelationships between Methanex's differentiating attributes and the methanol industry's value drivers are not complicated. By understanding, applying and optimizing these relationships, we create synergies around market position. And market position is the one differentiating attribute that is related to all our value drivers.

While the market development and proprietary technology initiatives have not yet contributed to Methanex's bottom line, their relationship to market position and production costs would expand the synergies we already enjoy.

Throughout this theme section we have used the block diagram to show the translation of differentiation into value, beginning at the left side with our differentiating attributes and moving towards the value drivers at the right. That's how we run our business, and our successes in 1997 were simply milestones in achieving our vision to "create superior shareholder returns through the world-class operation of a global methanol pipeline."

Responsible Care: & Corporate Governance

Responsible Care®

Introduction

Responsible Care embraces a "cradle to grave" approach to operating a manufacturing enterprise. beginning with product inception and considering all aspects through production to ultimate disposal. At Methanex, Responsible Care is an integral part of our business, forming the "umbrella" for all of our safety, health, environment and community programs. While Responsible Care is really an ethic, there are guiding principles set out in a series of non-prescriptive codes. and our interpretation of these codes is included on the outside back cover of this report. Inside Methanex, Responsible Care extends from our Board - where we have a Responsible Care committee - to our production plants, and continues through our marketing and logistics operations. And outside our company we have taken Responsible Care to our suppliers and customers, and to the communities in which we operate.

As we reported last year, our North American plants and offices were verified late in 1996 as being in compliance with the Responsible Care codes. This was extended to our New Zealand and Chilean operations in the first quarter of 1997, making Methanex the first chemical company to achieve global verification.

Some of the countries in which we operate have different standards than those adopted in North America, and our general policy as we go forward is to adopt the more stringent of the local or North American requirements. For example, Methanex's Responsible Care activities in New Zealand and Chile have been more advanced than similar initiatives of the local chemical industries, and we have been working in parallel to develop and enhance the local industry association codes

As well as our approach to differing regional standards, we have one other broad principle, which is that we take a balanced approach to safety, the environment and production. If we had to make a choice, safety would be our highest priority.

Having been verified as being in compliance with the Responsible Care codes, we are now developing a set of measurement parameters to monitor our performance. We will report these parameters in the future.

Responsible Care in action in 1997

Communication – Responsible Care includes a commitment to extend the ethic and practices to suppliers and customers, and consistent with this we have been undertaking third-party assessments for some time. During 1997 we extended these efforts and have provided a comprehensive handbook on methanol handling and safety matters to all of our customers, carriers, terminals and surveyors.

Safety – The international methanol specifications include an odor test, requiring technicians to "sniff" each batch of product. Methanex has developed an analytical technique to replace the odor test. We have shared our technique with the industry, and in 1997 we began the process of changing the methanol specifications to eliminate the need for the "sniff" test. Our initiative in this respect not only improves industry standards, it has also earned us additional sales.

Environment – Methanol production processes use metal-based catalysts (nickel, copper, zinc) to undertake various chemical reactions, and these catalysts typically have a three- to four-year life. Industry disposal techniques vary from landfill to consumption as micro-nutrients to metals recovery and recycle. Methanex has adopted the latter approach. We have completed a Responsible Care-based audit of spent catalyst processors and are developing a long-term relationship to ensure the highest standards of disposal for our spent catalyst materials.

Environment/Community — In November 1997 we incurred a C\$35,000 fine at our Kitimat facility for exceeding our effluent discharge permits in an incident that occurred in late 1996. We did not contest the charge because we did exceed our permits, and in an effort to avoid future incidents have spent C\$5 million improving our effluent systems at the plant. Fortunately, the incident had no apparent or sustained environmental impact, and we have worked with the local Kitimat community, keeping them apprised of the situation and helping to have the proceeds of the fine applied to volunteer and school groups involved in local habitat programs.

Communities – Chemical products and raw materials, and their transportation, can be hazardous, and our commitment to Responsible Care includes mitigating the risk of exposure and helping others should they incur problems (mutual aid). For example, during 1997 we declined an opportunity to transport additional product due to the heavy trucking activity that would impact one of our communities. We also tended to several spills of third-party (i.e. not Methanex's) materials.

Social investment – During 1997 we revised our social investment policy. One of the primary focuses of the new policy is on community outreach Responsible Care initiatives in the communities in which we operate and in which our employees live.

Significant trends and legislative matters impacting Methanex

MTBE – Issues related to MTBE and the controversy in California are discussed in the Question and Answer section of this report.

Greenhouse gases - The methanol production process does incur significant carbon dioxide (CO₂) emissions – up to one tonne per tonne of methanol depending on the technology, feedstock and by-product hydrogen disposition. These emissions are typically low pressure and difficult to recover, and there are thermodynamic limitations. Offsetting our emissions, we purchase and consume CO2 as supplemental feedstock at our plants in Medicine Hat and New Zealand - CO2 which would have otherwise been vented to the atmosphere. In New Zealand we have joined with the government in a voluntary greenhouse gas emissions reduction program, and across the Company, we continue to seek opportunities to improve the efficiency of our plants and thus reduce our emissions. This is not only responsible, it also makes economic sense since CO2 is feedstock that can be converted to methanol.

Environmental awareness – The inside back cover of this report shows methanol's numerous and varied roles in our lives. Many applications have significant positive impacts on our world: insulation conserves energy resources, reconstituted wood products conserve forests, and MTBE contributes to cleaner air and allows the removal of harmful components from gasoline. A portion of methanol demand therefore tends to reflect the growing trend towards environmental considerations and conservation. And Methanex's production plants all use natural gas feedstock, providing an implicitly clean process.

Methanol emissions data — During 1997 it was reported that methanol headed the list of US chemical emissions in 1994. The approximate 150,000 tonnes of methanol emissions quoted equates to almost 2% of all North American methanol consumption. This statistic alarmed us and so we investigated further. We found that over half of the methanol considered in the emissions data related to methanol produced as a by-product in very dilute quantities from other industries.

Corporate Governance

Our Board of Directors and senior management consider good corporate governance to be central to the effective, efficient and prudent operation of the Company. We believe that our corporate governance practices are consistent with the objectives reflected in the guidelines established by the Toronto and Montreal exchanges.

Board of Directors

The Board of Directors is responsible for supervising the management of both the business and the affairs of the Company, and it establishes the overall policies and standards under which we operate. The Board also monitors and evaluates the Company's strategic direction.

In addition to retaining the powers required by law or under the by-laws of the Company, the Board approves significant business issues and corporate plans as well as major transactions such as acquisitions, divestitures, financing and significant capital expenditures.

Our directors are kept informed of the Company's operations at regularly scheduled meetings of the Board and its Committees, and through reports and analysis prepared by management. During 1997, our Board met formally on six occasions, and there was also frequent informal communication between directors and management.

The Board considers its current membership of nine directors to be appropriate at the present time. Its Chairman, Mr. Newall, is not an employee of Methanex and is not involved in the day-to-day management of the Company. Mr. Choquette (the Company's President and Chief Executive Officer) is the only Board member who is a "related" director, and he would also be considered an "inside" director. While we do not have a "significant shareholder", Messrs. Newall, Lipton and Poole are all officers of Nova Corporation which holds approximately 26.7% of our stock. (These disclosures are made with reference to the descriptions of "related," "inside" and "significant shareholder" provided by the Toronto and Montreal exchanges.)

Committees of the Board of Directors

The Board has established three standing Committees, each with certain delegated responsibilities and instructions to perform certain advisory functions and make reports and recommendations to the Board. Appropriate senior management is represented at each Committee.

The Audit, Finance and Risk Committee meets with the financial officers of the Company and the independent auditors to review (amongst other matters) financial reporting, controls and procedures, audit procedures and plans, risk management, the investment of Company pension funds, and our annual report. This Committee is made up of Messrs. Gregson (Chairman), Lawrence, Poole and Sweeney.

The Human Resources and Corporate Governance Committee is composed of Messrs. Findlay, Lawrence, Lipton, Morton, Newall (Chairman) and Sweeney and is responsible for reviewing matters including senior appointments, succession planning, and compensation. It is also responsible for the composition, performance, compensation and governance of the Board. This Committee also approves the written annual corporate objectives of our Chief Executive Officer, and reviews the Chief Executive Officer's performance against those objectives.

The Responsible Care and Public Policy Committee is responsible for matters including the environment, occupational health and safety, corporate contributions, government relations and public affairs issues that impact significantly on the Company. This Committee is composed of Messrs. Findlay, Gregson, Lipton, Morton and Sweeney (Chairman).

Management's Discussion & Analysis

Management's Discussion & Analysis

Methanex is the world's largest producer and marketer of methanol. The Company has established its superior position in the methanol industry by providing security of supply to customers, maintaining operating reliability, establishing a strong market position in all regions and through market development initiatives. These achievements, together with a relentless drive to lower all aspects of cash costs, have positioned Methanex to meet the challenges of a global commodity chemical business.

The following provides an analysis of the 1997 consolidated results, an outlook for methanol pricing and natural gas costs, and a discussion of liquidity, capital investments and risk management.

1997 Consolidated Results

For the year ended December 31, 1997, Methanex recorded net earnings of \$202.0 million compared to a net loss in 1996 of \$7.9 million. The 1996 results included a write-down of property, plant and equipment of \$93.4 million net of tax. Excluding the write-down, net earnings for 1996 were \$85.5 million.

(\$ millions except as noted)	1997	1996
Sales volumes (thousands of tonnes)		
Produced	5,049	4,580
Purchased	1,854	1,557
	6,903	6,137
Methanol price (\$ per tonne)	187	149
Earnings from operations	251	97
Net earnings (loss)	202	(8)

Earnings from Operations

Earnings from operations were \$251.5 million compared with \$97.5 million in 1996.

The increase of \$154.0 million was the result of the following:

Twelve Months 1997 vs. Twelve Months 1996 (\$ millions)

	174
	40
ı	(17)
	(18)
	(3)
	(22)
	154

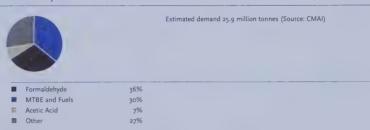
⁽¹⁾ Assumes 1996 production levels, excludes impact of Chile II.

⁽²⁾ Includes year over year change in insurance and non-income tax recoveries.

Strong Pricing for Methanol

Earnings are highly sensitive to fluctuations in methanol price. In 1997, the average realized price was \$187 per tonne compared to \$149 per tonne in 1996. Methanex's realized price increased to more than \$180 per tonne in the first quarter of 1997 and remained at or above this level for the balance of the year. The price strengthened due to a tight supply/demand balance caused by very healthy global demand and unplanned competitor production outages.

1997 Global Methanol Demand by End Use Market



Approximately two-thirds of all methanol is used as a feedstock to produce formaldehyde, acetic acid and numerous other chemical derivatives. The balance is used in the fuels sector primarily in the manufacture of MTBE. The market for methanol grew by almost 5% in 1997.

Demand for formaldehyde was strong in 1997 due to significant growth in housing starts in the United States and healthy global gross domestic product (GDP) growth. The use of methanol in the production of acetic acid increased 16% from 1996 due primarily to new production capacity favouring methanol-based production technology and very strong acetic acid demand growth for use in the manufacture of products such as polyester. Demand for other methanol chemical derivatives grew by 4%, in line with global GDP growth.

MTBE demand for methanol grew by approximately 4% in 1997. In the United States, this increase was driven by growth in the gasoline pool and the impact of a full year of the second phase of the program which requires the use of reformulated gasoline in California. Outside the United States, growth was driven by the increased use of MTBE in gasoline as a source of octane' to replace lead, benzene and other aromatics and as an oxygenate as more countries implement clean air legislation.

Continued Strong Growth in Sales

Methanex sales growth outpaced the industry rate. In 1997, sales were 6.9 million tonnes compared to 6.1 million tonnes in 1996, an increase of 12%. Sales of Methanex produced product increased by 10% to 5.0 million tonnes. All regions experienced strong demand and the largest increase in sales was in Asia and Europe. This sales growth was achieved primarily by providing security of supply in the face of industry outages, leadership in the areas of Responsible Care and safety, and superior customer service.

1997 Methanex Sales Volumes by Market

		6.9 million tonnes	
•			
	Asia-Pacific	34%	
	Asia-Pacific North America	34% 33%	
		34% 33% 22%	

Methanol Production

Methanex used its operating flexibility to meet customer requirements and maximize margins. The first plant in Chile (Chile I) was shut down for a planned turnaround in April 1997. The second Chilean plant (Chile II) was shut down for unplanned repairs for most of October and November. The Chile II shutdown was an insured event and Methanex is currently in discussions to settle the claim associated with the shutdown. Final settlement is expected in 1998.

(thousands of tonnes)	Nominal Capacity	Production	Production
,	Capacity	1997	1996
Kitimat	500	480	436
Medicine Hat	830¹	756	1,047
Fortier ²	400	316	248
Motunui	1,900	1,395	1,297
Waitara Valley	530	510	549
Chile I	800	766	853
Chile II ³	925	869	14
	5,885	5,092	4,444

⁽¹⁾ Excludes Medicine Hat II (270,000 tonnes) which was idled in June 1997. This plant can be restarted within 3 months.

Methanex continues to make progress in lowering its structural cost position. In late 1996 the new low-cost plant in Chile (Chile II) came on-stream and, as previously announced, one of the smaller high-cost plants at Medicine Hat was idled.

Purchased Product Contribution Lower than 1996

During the year, sales of purchased product were 1.9 million tonnes compared to 1.6 million tonnes in 1996. The Company supplemented purchases made under long-term contracts with spot purchases to meet customer requirements. The contribution from purchased product decreased by \$17 million.

Natural Gas Costs Higher than 1996

Natural gas is the principal feedstock in the manufacture of methanol and represents a significant portion of production costs. Natural gas costs in 1997 were higher than 1996 as follows:

							,
(\$	-	١	١	_		٨	3
10	555				2		

Chile I	8	
North America	10	
New Zealand	_	
	\$18	

⁽¹⁾ Chile II came on-stream in late 1996 and is excluded from this analysis.

In 1997, natural gas costs for the Chile I plant increased by \$8 million due to a final price step in the long-term natural gas contract.

⁽²⁾ Represents Methanex's 70% share.

⁽³⁾ Commenced production late December 1996.

⁽⁴⁾ Excludes Enron.

Natural gas costs for the North American plants increased by \$10 million in 1997. North American natural gas prices fluctuate widely, and overall prices were higher in 1997 than 1996. Natural gas for the Kitimat, Medicine Hat and Fortier facilities are generally priced off the Sumas, Aeco and Henry Hub indices respectively. Average prices per these indices for 1997 and 1996 were as follows:

	Ave	rage Price ¹	
\$ per gigajoule	1997		1996
Sumas (Kitimat plant)	\$ 1.62	\$	1.28
Aeco (Medicine Hat plants)	1.28		0.97
Henry Hub (Fortier plant)	2.45		2.47

⁽¹⁾ Average of monthly published index prices.

Depreciation

In 1997, depreciation and amortization increased by \$3 million. The increase was due to the impact of commencing depreciation on the new Chile II facility offset by a decline in depreciation on the New Zealand and Medicine Hat plants.

Non-Operating Income/Expense

(\$ millions)	1997	1996
Interest expense	32.4	20.4
Interest income	30.1	23.0
Write-down of property, plant and equipment		105.0
Other, net	4.1	_

Interest expense in 1997 was \$32.4 million compared with \$20.4 million in 1996. The change results primarily from a reduction in the amount of interest capitalized related to the construction of the plants in Chile.

Interest income represents interest earned on cash and cash equivalents. Interest income increased primarily due to larger average cash balances in 1997 compared to 1996.

Income and Other Taxes

The Company's effective tax rate is lower than the combined statutory rate in Canada because a substantial amount of the Company's earnings are generated in jurisdictions where the tax rate is lower than Canada and due to the recognition of tax benefits that had not been recognized for accounting purposes. The tax rate for 1997 was 20.2%. This compares to 14.6% in 1996 excluding the \$93.4 million net of tax write-down of property, plant and equipment. The tax rate was higher in 1997 due to higher methanol prices which increased the earnings in higher tax jurisdictions.

Outlook

Methanol is a global commodity and earnings are most significantly impacted by fluctuations in the methanol price and natural gas costs.

Price of Methanol

The largest factor influencing Methanex's earnings is the price of methanol. Methanex competes on a global basis in an industry where there has been significant volatility in prices driven by overall demand and supply balances.

Methanol Demand

Demand for methanol in the production of formaldehyde, acetic acid and other chemical derivatives is driven primarily by the health of the global economy as reflected by the growth in global GDP. GDP growth was approximately 4% in 1997, representing a substantial increase in global methanol demand for chemical derivatives. It is uncertain what impact the current currency and economic problems facing certain Asian countries will have on medium-term global GDP growth and methanol demand.

MTBE and fuels is the second largest end use of methanol, representing approximately 30% of global methanol demand. MTBE demand is driven by clean air legislation as well as the extent to which MTBE is used as a source of octane. The most significant demand for MTBE is in the United States, where it is used primarily as an oxygenate in reformulated gasoline to meet the emissions requirements of the Clean Air Act. MTBE demand has grown significantly in recent years as the use of reformulated gasoline has increased to meet the emissions requirements. Legislated demand for MTBE in the United States has matured and MTBE demand for 1998 is expected to increase by about 1 - 2%. Additional states are considering adopting reformulated gasoline to improve local air quality and this would further increase MTBE demand.

Demand for MTBE as a source of octane and an oxygenate outside the United States has continued to grow as lead is phased out of gasoline and clean air legislation is introduced. China is currently in the process of eliminating lead, benzene and other aromatics from its gasoline and will require alternate sources of octane for its gasoline. Korea and Thailand have introduced clean air legislation which requires the use of oxygenates in fuel. Opportunities for further growth in demand for MTBE outside the United States have led to the Company's expectation that MTBE will remain the highest methanol derivative growth segment over the next few years.

MTBE in reformulated gasoline has made a significant contribution to improving air quality in California and other states. Notwithstanding this, there have been concerns raised over potential health issues. In California, legislation was passed which requires that a study of MTBE and other fuel oxygenates be completed by January 1, 1999 to verify that the health benefits outweigh any risks. This legislation was passed largely due to publicity surrounding MTBE being detected in drinking water, most likely sourced from leaking underground gasoline storage tanks. MTBE has been the subject of extensive study, and Methanex is not aware of any evidence that MTBE, when used as a gasoline additive, represents a health risk.

Certain oil refiners are seeking an amendment to the Clean Air Act to exempt California from the oxygenate requirement in reformulated gasoline. This appears to have been initiated to allow the refiners greater flexibility in blending gasoline.

Despite the uncertainty caused by these initiatives, new capital continues to be committed to the construction of world-scale MTBE facilities.

Alternative fuels are expected to provide significant future demand growth potential for methanol. Progress has been made in developing a diesel/methanol fuel blend and trials are underway for its use in bus fleets. In addition, prospects for longer term growth in methanol demand for use in fuel cells remains positive. Methanol is currently considered to be an attractive source of hydrogen for fuel cells. Many of the major automobile manufacturers, including Daimler Benz, Toyota, Ford and General Motors, have announced plans to advance the design of fuel cell powered vehicles.

Methanol Supply

Known significant methanol capacity additions (underway or probable) for 1997 to 1999 are as follows:

(thousands of tonnes)	1997	1998	1999
Statoil (Norway) (Q2)	830		
Ar Razi III (Saudi Arabia) (Q4)	850		
PT Kaltim (Indonesia) (Q1)		660	
Methanol IV (Trinidad) (Q2)		550	
Chile III (Q2)			975
Titan (Trinidad) (Q4)			850
Ar Razi IV (Saudi Arabia) (Q4)			850
	1,680	1,210	2,675

Supply/Demand Balance

The methanol supply/demand outlook continues to create uncertainty for the price of methanol. Approximately 3.9 million tonnes of new supply is expected to come on-stream in 1998 and 1999. The impact of this new supply on the price of methanol will depend upon the strength of global demand and industry operating rates. Demand will be impacted by global GDP growth and the end-use demand for specific methanol-based products. Supply will be impacted by industry operating performance and the actions of high-cost producers in regions such as the United States, Europe, Russia and China.

The uncertainty facing the price of methanol has reinforced the importance of the initiatives that Methanex has undertaken to reduce costs. Construction of the low-cost Chile III plant is progressing on schedule, with the start-up expected by mid 1999. In anticipation of the completion of Chile III, Methanex has ordered a 96,000 dwt vessel which is approximately twice the size of any of the vessels currently in the fleet. This vessel will deliver methanol from Chile to Rotterdam at roughly 40% savings. The outlook for natural gas supplies for Methanex's New Zealand plants is positive. (See "Natural Gas".) Also, a memorandum of understanding with the Qatar state oil and gas company was signed to initiate a feasibility study to consider the development of a new low-cost Middle East "production hub."

Natural Gas

Natural gas is the principal feedstock for the manufacture of methanol. Accordingly, it is important to the profitability of Methanex to have security of supply at favourable prices. Methanex purchases natural gas through long-term contracts or in the open market depending on location.

In Chile and New Zealand, Methanex obtains substantially all of its natural gas through long-term take-or-pay supply contracts.

The natural gas contract for the original Chilean plant (Chile I) is based on a fixed United States dollar price, adjusted through 1998 by reference to a United States inflation rate index and further adjusted to a formula related to methanol prices when methanol prices reach a specific level. Natural gas for the Chile II plant is supplied under a long-term fixed United States dollar price contract adjusted according to a formula related to prevailing methanol prices.

The Waitara Valley and Motunui plants located in New Zealand are serviced under long term take-or-pay contracts to 2003 and 2005. The purchase price under these contracts is based on a fixed New Zealand dollar price adjusted annually based on a factor related to New Zealand inflation.

If the New Zealand plants were operated continuously at capacity the contractual natural gas entitlements would be consumed earlier than the expiry of the contracts. Until recently the prospects for additional gas to service these plants appeared limited, and in 1996 Methanex made a decision to focus methanol production at the Motunui site and to idle the Waitara Valley plant beginning in 1998. This decision resulted in Methanex writing down the carrying value of the Waitara Valley plant. In 1997, the likelihood of purchasing additional gas improved significantly and Methanex made the decision to continue operating the Waitara Valley plant. Methanex has been offered a number of small parcels of natural gas and has signed a memorandum of understanding with Fletcher Challenge Energy Limited to work with it to secure additional large volumes to operate the plants for the longer term.

In North America, natural gas is purchased under a mix of contracts, with fixed and annually adjusted prices, and on the spot market. These prices are set in an intensely competitive market and fluctuate widely.

To protect against North American short-term natural gas price volatility, the Company enters into both physical and financial contracts which fix the price of natural gas. The expected natural gas requirements for the Fortier facility are at fixed prices for the 1997/98 winter period. The Kitimat facility has 85% of the winter gas requirements set at fixed prices. The Medicine Hat facility has 65% of 1998 gas requirements set at fixed prices.

An important competitive factor for the Medicine Hat operation has been the historic price differential between natural gas prices in Alberta and the U.S. Gulf Coast. This differential results from a transportation cost difference and the relative supply/demand balance in Alberta. A number of pipeline expansions are currently being considered to increase natural gas export capacity from Alberta to the United States. Should these projects proceed, natural gas prices in Alberta may increase.

Summary of Factors Influencing 1998 Revenues & Costs

(\$ millions, annualized)	
Revenues	
Change in the price of methanol by \$0.01 per gallon (\$3.33/tonne) ¹	\$18.0
Costs	
Change in North American gas costs by \$0.10/gigajoule ²	\$2.7
Change in New Zealand dollar by U.S. 1¢3	\$1.7
Change in Canadian dollar by U.S. 1¢4	\$0.1

- (1) Assumes sales of Methanex produced product of 5.5 million tonnes.
- (2) Based on production of 1.5 million tonnes and after giving effect to commitments in place at December 31, 1997, to purchase natural gas at fixed prices.
- (3) For 1998, the Company has forward exchange contracts covering approximately 45% of the estimated minimum New Zealand currency exposure and option collar arrangements covering approximately 40% of the estimated minimum New Zealand currency exposure. The sensitivity assumes that the New Zealand dollar is trading between the floor and cap exchange rates of \$0.5628 and \$0.6685, respectively, established in the collar arrangement.
- (4) The Company has forward exchange contracts and option cap arrangements to cover substantially all non-natural gas costs and natural gas fixed price purchases committed at December 31, 1997.

Liquidity & Capital Resources

Cash generation continues to be very strong. Cash generated from operations before changes in non-cash working capital was \$370.5 million in 1997 compared to \$223.9 million in 1996. The higher cash generation in 1997 was principally due to higher methanol prices.

The strong cash generation in 1997 has allowed Methanex to finance the initial phases of the construction of the third plant in Chile, complete a normal course issuer bid to repurchase 14 million shares at a cost of \$125.6 million and increase liquidity by over \$100 million.

Cash Flow Highlights

(\$ millions)	1997	1996
Cash generated from operations	370.5	223.9
Changes in non-cash working capital	(24.1)	(27.7)
Repurchase of shares	(125.6)	
Cash invested in property, plant & equipment	(111.3)	(181.5)
Other .	(1.1)	(30.5)
Increase (decrease) in cash	108.4	(15.8)
EBITDA interest coverage ¹	12.0X	6.8x

⁽¹⁾ Includes interest capitalized to property, plant and equipment. EBITDA is before write-down of property, plant and equipment.

Capitalization

(\$ millions)	1997	1996
Cash and cash equivalents	492	384
Liquidity ¹	879	771
Long-term debt	398	398
Shareholders' equity	1,191	1,112
Long-term debt / Capitalization	25%	26%

⁽¹⁾ Defined as cash and undrawn credit facilities.

Credit Ratings for Unsecured Debt Securities1 at December 31, 1997

Standard & Poor's	BBB+
Moody's Investor Service	Baa3
Fitch	BBB-

⁽¹⁾ Credit ratings are not recommendations to purchase, hold or sell securities and do not comment on market price or suitability for a particular investor.

There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future.

Capital Expenditures

A very important objective for the Company is to lower delivered cash costs to position Methanex to outperform the rest of the industry.

Expanding the low-cost Chile operations is a key element of this strategy. In late 1996 Methanex completed the construction of the Chile II facility and Chile III construction is progressing as planned and completion is expected by mid 1999. The capital cost of Chile III is estimated to be \$305 million. At December 31, 1997, the costs to complete this facility were \$204 million.

Capital Expenditures:

	Latinated	
(\$ millions)	1998	1997
Chile II		24
Chile III	120	99
Capital maintenance, turnarounds and catalyst	85	31
	205	154

Estimated capital spending for maintenance, turnarounds and catalyst for 1998 is \$85 million compared to \$31 million in 1997. The increase is due to the timing of turnarounds and advanced purchases for turnarounds planned for 1999.

The strong financial position provides sufficient financial capacity to complete Chile III and pursue other opportunities to improve the Company's global position in methanol.

Risk Management

Operating Risk

Reliability of supply is a competitive advantage for Methanex. Methanex continually manages the risk posed by its facilities and production processes with the view to reduce or minimize exposures. Methanex's management processes address plant reliability, safety and compliance with environmental guidelines under the principles of Responsible Care.

Year 2000

Computer programs which perform calculations based on dates may require amendments to allow for the Year 2000. Methanex's plant operating and business systems are highly computerized and consequently Methanex has established an initiative to identify any potential problems and to ensure that all key systems will continue to operate effectively. At this time, the cost to implement this initiative has not been determined. While the Company is taking all prudent actions and seeking the assistance of its systems and equipment suppliers, there is no guarantee that all "Year 2000" issues, that could impact the Company, will be identified and resolved.

Financial Risk

The dominant currency in which Methanex transacts its business is the United States dollar, which is the Company's reporting currency. However, a significant portion of Methanex's costs are incurred in other currencies, principally the New Zealand dollar and the Canadian dollar. To a lesser extent costs are affected by fluctuations between the United States dollar and the Chilean peso, and in the case of revenues, the German deutschmark.

Methanex has implemented a foreign exchange hedging program which is designed to limit exposure to foreign exchange volatility and to contribute towards achieving cost structure targets. Methanex manages its exposure to foreign currencies through forward exchange contracts and currency options. These instruments are used for hedging purposes, not for speculation. Hedging activity is reviewed regularly by the Audit, Finance & Risk Committee of the Board of Directors.

In New Zealand, all of the natural gas costs and most of the operating costs to manufacture methanol are incurred in New Zealand dollars. Methanex has utilized a combination of average rate forward contracts and option collars to hedge a substantial portion of the New Zealand dollar currency exposure through 2002.

In Canada, certain natural gas costs, natural gas transmission costs and certain operating costs to manufacture methanol are incurred in Canadian dollars. All Canadian dollar currency exposure relating to natural gas fixed price purchase commitments and substantially all non-natural gas costs through 2002 have been hedged using average rate forward exchange contracts and option cap arrangements.

In Chile, certain capital expenditure costs to complete Chile III and certain operating costs to manufacture methanol are incurred in Chilean pesos. All the Chilean peso exposure relating to capital expenditures and virtually all of the Chilean peso operating costs have been hedged through 2000 using forward contracts.

Consolidated Financial Statements

- thought control of the

Auditors' Report to Shareholders

We have audited the consolidated balance sheets of Methanex Corporation as at December 31, 1997 and 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada February 25, 1998

Responsibility for Financial Reporting

The consolidated financial statements and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, have incorporated estimates based on the best judgment of management.

Management is responsible for the development of the internal controls over the reporting process.

Management believes that the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of financial reports.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and is responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through the Audit, Finance and Risk Committee (the Committee). The Committee, consisting of four non-management directors, reviews the consolidated financial statements, annual report, annual information form and management discussion and analysis, and recommends them to the Board for approval. The Committee considers, for review by the Board and approval by the shareholders, the appointment of the external auditors. In addition, the Committee reviews and approves unaudited interim financial statements, news releases on interim financial results, and interim reports to shareholders before their distribution. The Committee meets regularly with management and the Company's auditors, KPMG, Chartered Accountants, to discuss internal controls and significant accounting and financial reporting issues. KPMG have full and unrestricted access to the Committee.

KPMG, the Company's auditors, have provided an independent professional opinion on the fairness of these consolidated financial statements. Their opinion is included in the annual report.

Brian D. Gregson Chairman of the Audit, Finance and Risk Committee Pierre Choquette
President and
Chief Executive Officer

Allan S. Cole Vice President, Finance and Chief Financial Officer

Allan S. Cole

February 25, 1998

Consolidated Balance Sheets

(thousands of U.S. dollars)

December 31, 1997 and 1996		1997	1996
Assets			
Current assets:			
Cash and cash equivalents	\$	492,316	\$ 383,892
Receivables (note 2)		241,656	207,847
Inventories		89,272	68,129
Prepaid expenses		12,364	9,237
		835,608	669,105
Property, plant and equipment (note 3)		1,064,634	1,020,546
Other assets (note 4)		68,629	81,513
	\$	1,968,871	\$ 1,771,164
Current liabilities: Accounts payable and accrued liabilities Current maturities on long-term debt	\$	197,987	\$ 119,179
and other long-term liabilities		5,145	 4,932
		203,132	124,111
Long-term debt (note 5)		398,481	398,241
Other long-term liabilities (note 6)		62,419	64,024
Deferred income taxes		113,366	72,548
Shareholders' equity			
Capital stock (note 7)		720,569	774,985
Retained earnings		470,904	337,255
		1,191,473	1,112,240
	S	1,968,871	\$ 1,771,164

See accompanying notes to consolidated financial statements.

Approved by the Board:

Sum Chaquette

Pierre Choquette

Director

Brian D. Gregson

Director

Consolidated Statements of Earnings and Retained Earnings

(thousands of U.S. dollars)

December 31, 1997 and 1996	 1997		1996
Revenue	\$ 1,299,380	\$	945,707
Cost of sales and operating expenses	930,850		734,122
Depreciation and amortization	117,057		114,055
	1,047,907		848,177
Earnings from operations before undernoted items	251,473		97,530
Interest expense	(32,423)		(20,361)
Interest income	30,076		22,993
Write-down of property, plant and equipment (note 3)			(105,000)
Other, net	4,077		_
	 1,730		(102,368)
Earnings (loss) before income and other taxes	253,203		(4,838)
Income and other taxes (note 9)	51,215		3,014
Net earnings (loss)	 201,988		(7,852)
Retained earnings, beginning of year	337,255		345,107
Excess of repurchase price over assigned			
value of common shares (note 7)	(68,339)		_
Retained earnings, end of year	\$ 470,904	\$	337,255
Weighted average number of common shares outstanding	183,790,226	18	8,980,543
Net earnings (loss) per common share	\$ 1.10	\$	(0.04)

The number of common shares outstanding at December 31, 1997 (was 175,576,823 (December 31, 1996 – 189,118,573)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position (thousands of U.S. dollars)

December 31, 1997 and 1996	 1997	· 1996
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ 201,988	\$ (7,852)
Add:		
Depreciation and amortization	117,057	114,055
Write-down of property, plant and equipment	_	105,000
Deferred income taxes	40,818	4,188
Other	10,665	8,460
Cash generated from operations before changes		
in non-cash working capital	370,528	223,851
Receivables and accounts payable and accrued liabilities	2,468	(25,371)
Inventories and prepaid expenses	(26,596)	(2,326)
	346,400	 196,154
Financing:		
Repayments of long-term debt and other long-term liabilities	(6,360)	(26,622)
Issue of shares for cash	2,817	928
Shares repurchased	(125,572)	_
Tax benefits realized related to capital stock	_	5,879
	(129,115)	(19,815)
Investments:		
Property, plant and equipment	(153,825)	(174,322
Accounts payable and accrued liabilities related to capital expenditures	42,533	(7,208)
Other assets	2,431	(10,562)
	 (108,861)	 (192,092)
Increase (decrease) in cash and cash equivalents	 108,424	 (15,753)
Cash and cash equivalents, beginning of year	383,892	399,645
Cash and cash equivalents, end of year	\$ 492,316	\$ 383,892

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular dollar amounts are shown in thousands of U.S. dollars, except where noted) Years ended December 31, 1997 and 1996

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and include the accounts of Methanex Corporation and its subsidiaries. Preparation of these consolidated financial statements requires estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates.

(b) Reporting currency:

The majority of the Company's business is transacted in U.S. dollars and, accordingly, the consolidated financial statements have been measured and expressed in that currency.

(c) Cash equivalents:

Cash equivalents include securities with maturities of three months or less when purchased.

(d) Receivables:

The Company provides credit to its customers in the normal course of business. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. Credit losses have been minimal and within the range of management's expectations.

(e) Inventories:

Inventories are valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

(f) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Financing costs incurred during construction are capitalized to the cost of the asset. Depreciation is provided on a straight-line basis or a unit-of-natural-gas consumption basis, as appropriate to the asset, to amortize the cost of the assets over their estimated useful lives.

Production from the New Zealand operations is dependent on the supply of natural gas from the Maui and Kapuni fields. A reduction in the recovery of natural gas from the fields underlying the contracted gas could potentially reduce the Company's gas entitlements. The Company has entered into discussions with gas suppliers to develop a longer term gas supply for the New Zealand operations. There can be no assurance that the Company will be able to secure additional gas in New Zealand at economically attractive terms.

Routine repairs and maintenance costs are charged against current operations. At intervals of two or more years, the Company conducts a shut-down and inspection of significant units (turnaround) at its plants to perform necessary repairs and replacements of catalyst. Costs associated with these shutdowns are deferred and amortized over the period until the next planned turnaround.

Obligations for future removal and site restoration costs are provided for on a straight-line basis or a unit-of-natural-gas consumption basis, as appropriate to the related asset, to amortize the costs over the estimated useful lives of the assets when a reasonably definitive estimate of the costs can be made.

(g) Other assets:

Other assets are recorded at cost. Amortization is provided on an appropriate basis to charge the cost of the assets against earnings as utilized.

1. Significant accounting policies (continued):

(h) Foreign currency translation:

The Company translates foreign currency denominated monetary items at the rates of exchange prevailing at the balance sheet dates and revenues and expenditures at average rates of exchange during the year. Foreign exchange gains or losses are included in earnings.

(i) Financial instruments:

The Company uses various derivative financial instruments to hedge its operating exposures to fluctuations in foreign exchange rates, interest rates and natural gas costs. The unrealized gains and losses of these hedges are deferred and included in the measurement of the related hedged transaction when realized.

Premiums paid or received with respect to financial instruments are deferred and amortized to income over the effective period of the contracts.

(j) Income taxes:

Deferred income taxes are provided on differences in timing between the treatment for income tax and accounting purposes of various items of income and expenditure.

The Company does not accrue for taxes that will be incurred upon distributions from its subsidiaries unless it is probable that the earnings will be repatriated.

2. Receivables:

	1997	1996
Trade	\$ 164,411	\$ 147,802
Other	77,245	60,045
	\$ 241,656	\$ 207,847

3. Property, plant and equipment:

 Cost		Depreciation Ne	
\$ 1,777,593	\$	823,572	\$ 954,021
101,419			101,419
1,879,012		823,572	1,055,440
16,246		7,052	9,194
\$ 1,895,258	\$	830,624	\$ 1,064,634
\$	\$ 1,777,593 101,419 1,879,012 16,246	\$ 1,777,593 \$ 101,419 1,879,012 16,246	Cost Depreciation \$ 1,777,593 \$ 823,572 101,419 — 1,879,012 823,572 16,246 7,052

(Tabular dollar amounts are shown in thousands of U.S. dollars, except where noted) Years ended December 31, 1997 and 1996

3. Property, plant and equipment (continued):

_	Cost	Accumulated Depreciation	Net Book Value
1996	 		
Plants:			
In production	\$ 1,726,260	\$ 715,892	\$ 1,010,368
Under construction	 2,478		2,478
	\$ 1,728,738	\$ 715,892	\$ 1,012,846
Other	 13,054	5,354	7,700
	\$ 1,741,792	\$ 721,246	\$ 1,020,546

During the year, \$1.1 million (1996 — \$13.9 million) of interest was capitalized to plants under construction.

The write-down of property, plant and equipment in 1996 of \$105 million consists of a write-down of book value of \$62 million, an accrual for site restoration costs of \$28 million (note 6) and an accrual of \$15 million for other costs.

4. Other assets:

		1996
\$ 26,559	\$	30,349
3,331		4,043
 29,890		34,392
15,278		16,164
		11,093
23,461		19,864
\$ 68,629	\$	81,513
\$	29,890 15,278 — 23,461	3,331 29,890 15,278 — 23,461

5. Long-term debt:

	1997	1996
7.40% unsecured notes due August 15, 2002 (effective yield 7.49%) 7.75% unsecured notes due August 15, 2005 (effective yield 7.83%)	\$ 149,520 248,961	\$ 149,417 248,824
	\$ 398,481	\$ 398,241

- (a) The Company's long-term debt agreements contain certain covenants relating to dividends, cash distributions, cash flow coverage and leverage ratios (as defined in the agreements). The Company is in compliance with all debt covenants.
- (b) The Company has available an unsecured revolving bank facility of \$387 million. This facility ranks pari passu with the unsecured notes.

6. Other long-term liabilities:

	1997	1996
Site restoration (a)	\$ 33,758	\$ 29,000
Marketing rights (b)	20,707	25,622
Other	13,099	14,334
	67,564	68,956
Less current maturities	(5,145)	(4,932)
	\$ 62,419	\$ 64,024

(a) Site Restoration

The Company has accrued for obligations for future removal and site restoration costs. Total costs for currently identified sites are estimated to be \$80 million. During 1997, the Company accrued \$4.7 million with the result that at December 31, 1997, the total amount accrued was \$33.8 million. Because of uncertainties related to estimating future removal and site restoration activities, future costs related to the currently identified sites could differ from the amounts estimated. In the event that the costs are in excess of amounts estimated, management does not anticipate that they will have a material adverse effect on the consolidated financial position of the Company.

(b) Marketing Rights

The consideration for the acquisition of North American marketing rights is payable over a five-year period to January 2000, based on a formula related to methanol prices during the period. The Company has placed a letter of credit as collateral for the estimated liability.

7. Capital stock:

- (a) The authorized share capital of the Company is comprised as follows: 25,000,000 preferred shares without nominal or par value; and Unlimited number of common shares without nominal or par value.
- (b) Under covenants set out in certain debt instruments, the Company can pay cash dividends or make other shareholder distributions to the extent that shareholders' equity is equal to or greater than \$850 million.
- (c) Changes in the capital stock of the Company during the period January 1, 1996 to December 31, 1997 were as follows:

	Number of Common Shares	C	Consideration
Balance, December 31, 1995	188,964,873	\$	768,178
Issued on exercise of incentive stock options	153,700		928
Tax benefits realized	_		5,879
Balance, December 31, 1996	189,118,573		774,985
Issued on exercise of incentive stock options	458,250		2,817
Shares repurchased	(14,000,000)		(57,233)
Balance, December 31, 1997	175,576,823	\$	720,569

During 1997, the Company repurchased for cancellation common shares at prices in excess of their assigned value. The cost to acquire the shares is allocated \$57.2 million to capital stock and \$68.4 million to retained earnings.

(Tabular dollar amounts are shown in thousands of U.S. dollars, except where noted) Years ended December 31, 1997 and 1996

(d) At December 31, 1997 and 1996, the following common shares are reserved for outstanding incentive stock options granted to directors, officers and employees (exercise price per share expressed in Canadian dollars):

Expiry Date	Exercise Price	Outstanding December 31, 1996	Granted	Canceled	Exercised	Outstanding December 31, 1997
Aug. 10, 2002	\$ 7.20	50,000		_	25,000	25,000
Feb. 2, 2003	\$ 7.88	372,875	_	_	216,875	156,000
Feb. 2, 2003	\$ 8.25	389,625	_	_	148,125	241,500
Dec. 9, 2003	\$ 10.63	297,750	******	15,000	40,250	242,500
Jan. 12, 2004	\$ 11.00	1,363,600	manners.			1,363,600
May 31, 2004	\$ 16.25	200,000	_	_		200,000
Sept. 30, 2004	\$ 23.75	200,000	<u></u>	_	_	200,000
Feb. 23, 2005	\$ 14.63	565,000	_	19,500	_	545,500
May 31, 2005	\$ 11.25	75,000	_	_	_	75,000
July 31, 2005	\$ 11.50	25,000	_	_	_	25,000
Oct. 31, 2005	\$ 8.88	40,000	_	_	_	40,000
Feb. 15, 2006	\$ 11.00	578,500		5,000	28,000	545,500
Mar. 5, 2007	\$ 13.65		920,550	*********	-	920,550
Sept. 25, 2007	\$ 11.95		30,000			30,000
Total		4,157,350	950,550	39,500	458,250	4,610,150

Incentive stock options are exercisable at prices equal to the quoted market price at date of grant.

8. Segmented information:

The Company's operations consist primarily of the production and sale of methanol which constitutes a single operating segment.

Revenues attributed to geographic regions, based on location of customers, are as follows:

	Canada	United States	Japan	Other Asia	Europe	Latin America	Total
Revenue							
1 997 1996	\$ 51,888 42,833	\$ 375,415 270,375	\$ 205,781 138,167	\$ 245,933 188,118	\$ 274,387 196,989	\$ 145,976 109,225	\$ 1,299,380 945,707

Net book value of property, plant and equipment by country is as follows:

	Canada	United States	New Zealand	Chile	Total
Property, Plant and Equipment					
1997	\$ 189,321	\$ 121,463	\$ 244,133	\$ 509,717	\$ 1,064,634
1996	202,016	125,785	283,716	409,029	1,020,546

9. Income and other taxes:

(a) Income tax expense differs from the amounts which would be obtained by applying the Canadian statutory income tax rate to the respective year's earnings before taxes. These differences are as follows:

	1997	1996
Canadian statutory tax rate	 45.0%	45.0%
Computed "expected" taxes	\$ 113,941	\$ (2,177)
Increase (decrease) in tax resulting from:		
Lower taxes in foreign jurisdictions	(42,944)	(24,657)
Losses not tax-effected	_	18,448
Benefits of losses and other tax deductions		
not previously recognized	(23,317)	(3,697)
Non-deductible costs	3,774	15,617
Other	(239)	(520)
Total income and other taxes	\$ 51,215	\$ 3,014
Income and other taxes are represented by:		
Cash income tax	\$ 10,397	\$ (1,174)
Deferred income tax	40,818	4,188
	\$ 51,215	\$ 3,014

(b) At December 31, 1997, the Company had available amounts deductible for income tax purposes of \$280 million in New Zealand in excess of accounting values. The tax benefits of these excess deductions, which are subject to final determination by taxation authorities, have not been recognized for accounting purposes. When utilized, the benefit of these amounts will be recognized in earnings.

In 1994, the Company purchased property, plant and equipment in Canada which had a cost for accounting purposes in excess of the basis for income tax purposes. This difference is being recognized in the Company's income tax provision on a straight-line basis as the assets are depreciated. The unamortized difference at December 31, 1997 is \$87 million.

(c) The Company has received a proposal from Revenue Canada to reassess the Company's 1991 Canadian income tax return. The potential reassessment may reduce the amount of tax depreciation available at December 31, 1991 and thereby increase cumulative income taxes and interest to December 31, 1997 in an amount aggregating approximately \$93 million.

The Company has responded to Revenue Canada's proposal. It is not determinable whether Revenue Canada's proposal will lead to a reassessment. If a reassessment is issued, the Company will file a notice of objection to appeal the reassessment. Based on advice received from legal counsel, management believes its position should be sustained.

In a related tax matter, a writ of summons was filed in the Supreme Court of British Columbia in December 1997 naming Methanex as a co-defendant in a civil case claiming damages equivalent to the income tax alleged owing plus interest by former subsidiaries. As of February 25, 1998, the writ had not been served on any of the defendants. Legal counsel has provided the opinion, with which management concurs, that there is a high probability that Revenue Canada will not succeed in this action.

(Tabular dollar amounts are shown in thousands of U.S. dollars, except where noted) Years ended December 31, 1997 and 1996

10. Derivatives:

(a) Foreign exchange risk management:

A substantial portion of the Company's business is transacted in its reporting currency, the U.S. dollar. At the Company's Canadian, New Zealand and Chilean production facilities, certain of the underlying operating costs and capital expenditures are incurred in local currencies. The Company uses derivative financial instruments to reduce its foreign exchange exposure on certain committed and anticipated costs related to these operations. In addition, certain revenues in Europe are realized in the German deutschmark. The Company has hedged certain of these exposures by entering into forward exchange contracts and currency options. The following table summarizes the Company's forward exchange contracts and currency options in German deutschmarks (DEM), New Zealand dollars (NZD), Canadian dollars (CAD) and Chilean pesos (CLP) at December 31, 1997:

	Notional Amount	Exchange Rate	Maturity
1. Purchase Contracts			
Average rate forward exchange contracts	NZD 234 million	\$ 0.6335	1998 – 2000
Average rate forward exchange contracts	NZD 212 million	\$0.6579	2000 - 2002
Option collar arrangements	NZD 350 million	Floor \$ 0.5628	1998 – 2000
		Cap \$ 0.6685	
Option collar arrangements	NZD 186 million	Floor \$ 0.5817	2001 - 2002
		Cap \$ 0.6450	
Forward exchange contract	NZD 34 million	\$ 0.5949	1998
Average rate forward exchange contracts	CAD 477 million	\$0.7312	1998 – 2002
Average rate option cap arrangements	CAD 74 million	\$0.7234	1998 – 2002
Forward exchange contracts	CLP 14 billion	\$0.0023	1998
Inflation-linked forward exchange contracts	CLP 32 billion	\$0.0023	1998 – 2000
2. Sales Contracts			
Forward exchange contracts	DEM 47 million	\$ 0.5655	1998
Forward exchange contracts	CAD 71 million	\$ 0.7267	1998

(b) Feedstock purchases:

The Company uses natural gas financial instruments to fix the price of a portion of its feedstock purchases. The instruments are used to moderate risk of fluctuations in feedstock prices. Natural gas financial instruments mature on various dates to October 1998. The fair value at December 31, 1997 was negative \$3.8 million (1996 - positive \$1.5 million).

11. Fair value disclosures:

The carrying value and fair value of the financial instruments are as follows:

		1997		1996
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
Caribbean methanol interest \$	_	_	11,093	_
Long-term debt	(398,481)	(418,950)	(398,241)	(409,050)
Derivative financial instruments:				(,),
Forward exchange contracts		(47,317)	_	23,402
Foreign currency options	15,278	(13,012)	16,164	19,044

The fair value of the Company's long-term debt and feedstock commodity financial instruments is determined based on quoted market prices. The fair value of foreign exchange financial instruments is estimated by obtaining quotes from the Company's counterparties for the same or similar financial instruments. Until settled, the fair value of these derivative financial instruments will fluctuate based on changes in foreign exchange rates.

The carrying values of cash and cash equivalents, trade receivables, accounts payable and accrued liabilities, and other long-term liabilities meeting the definition of a financial instrument approximate their fair value.

Included in the fair value of the derivative financial instruments referred to in the table above were unrealized losses of \$19.8 million (1996 – unrealized gains \$7.3 million) related to forward exchange contracts and foreign exchange options to hedge anticipated Canadian, New Zealand and Chilean operating costs for which there is not a contractual agreement in place.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments but does not expect any counterparties to fail to meet their obligations. The Company deals with only highly rated counterparties, normally major financial institutions. The Company is exposed to credit risk when there is a positive fair value of derivative financial instruments at a reporting date. Any positive fair value of derivative financial instruments represents the maximum amount that would be at risk if the counterparties failed completely to perform under the contracts.

12. Retirement plans:

The Company has non-contributory defined benefit pension plans covering certain employees. At December 31, 1997, the estimated present value of accrued pension benefits approximated the market value of the plan's assets. The Company also has defined contribution pension plans.

Total pension costs charged to operations during the year were \$5.3 million (1996 – \$4.6 million).

13. Commitments:

(a) The Company has commitments under take-or-pay contracts to purchase annual quantities of feedstock supplies and to pay for transportation capacity related to these supplies. The minimum commitment under these contracts for the next five years is as follows:

998	\$ 226 6 17
	226,641
999	\$ 186,181
000	\$ 187,232
001	\$ 169,532
002	\$ 168,400

(Tabular dollar amounts are shown in thousands of U.S. dollars, except where noted) Years ended December 31, 1997 and 1996

13. Commitments (continued):

(b) The Company has future minimum lease payments under operating leases relating primarily to vessel charter, terminal facilities, office space and equipment for the next five years as follows:

1998			\$	85,363
1999			\$	74,880
2000			\$	68,576
2001			\$	64,966
2002			\$	54,340

(c) The Company has commitments to purchase methanol at prices determined by specified margins at the time of purchase. The estimated commitment under these contracts for the next five years is as follows:

·	
1998	752,000 metric tonnes
1999	662,000 metric tonnes
2000	620,000 metric tonnes
2001	620,000 metric tonnes
2002	120,000 metric tonnes

(d) The Company is currently expanding its methanol production facilities in Chile. The Company estimates the remaining capital expenditures for this project will be \$204 million to be incurred in 1998 and 1999.

The Company intends to fund the expansion from cash generated from operations, cash and cash equivalents and undrawn bank facilities.

Methanex Corporation Annual Information Form

Contents

- 60 Reference Information
- 61 The Company
- 62 Business of the Company
- 62 General
- 63 Corporate Strategy and Development of the Business
- 65 Methanol Industry Information
- 68 Production
- 70 New Production Facilities
- 70 Purchased Product
- 70 Methanol Marketing
- 71 Methanol Distribution and Logistics
- 71 Gasoline
- 72 Natural Gas Supply
- 74 Foreign Operations and Government Regulation
- 75 Environmental Matters
- 76 Insurance
- 76 Employees
- 77 Selected Consolidated Financial Information
- 77 Five-Year Summary
- 77 Quarterly Summary
- 77 Segmented Information
- 8 Dividends
- 78 Management's Discussion and Analysis
- 78 Market for Securities
- 78 Directors and Officers
- 79 Additional Information

Reference Information

In this Annual Information Form, unless the context otherwise indicates, a reference to the "Company" refers to Methanex Corporation and a reference to "Methanex" refers to the Company and its subsidiaries and their respective interests in joint ventures and partnerships.

The Company uses the United States dollar as its reporting currency.

Accordingly, unless otherwise indicated, all dollar amounts in this Annual Information Form are stated in United States dollars.

In this Annual Information Form, unless the context otherwise indicates, all references to "methanol" are to chemical-grade methanol and all quantities of crude methanol are given in chemical-grade equivalent terms (i.e., the amount of chemical-grade methanol into which such crude methanol could be converted).

Information with respect to the approximate conversions of certain units of measurement referred to in this Annual Information Form into alternative units of measurement is provided below.

1 tonne = 2,205 pounds or 1,000 kilograms

1 tonne of methanol = 332.6 US gallons

1 tonne of gasoline = 8.62 barrels or 362 US gallons

1 barrel = 42 US gallons or 159 litres

1 gigajoule = 0.948 million British thermal units

or approximately 1,000 standard cubic

feet of natural gas

calculated on a higher heating value basis

1 petajoule = 106 gigajoules

Historical price data and supply and demand statistics for methanol set forth in this Annual Information Form are derived by the Company from recognized industry reports regularly published by independent consulting and data compilation organizations in the methanol industry, including Chemical Market Associates Inc. ("CMAI"), Petrochemical Consultants International, SRI International and Tecnon (UK) Ltd.

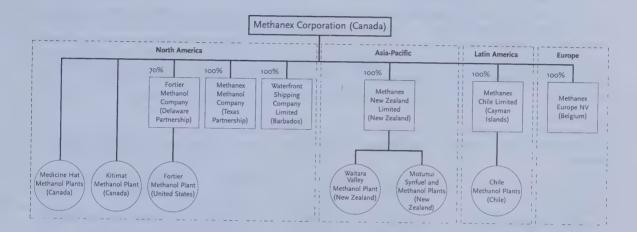
Responsible Care® is a trademark of the Canadian Chemical Producers' Association, used under license by Methanex.

The information in this material contains forward-looking statements with respect to Methanex. By their nature, these forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. These risks and uncertainties include methanol and natural gas prices, regulatory and competitive developments affecting cost levels of methanol operations, foreign currency exchange rates, foreign laws and regulations and other risks detailed from time to time in the publicly filed disclosure documents and other securities commissions reports of Methanex.

The Company

The Company was incorporated under the laws of Alberta on March 11, 1968 and was continued under the Canada Business Corporations Act on March 5, 1992. The head office of the Company is located at 1800 Waterfront Centre, 200 Burrard Street, Vancouver, British Columbia V6C 3M1 (telephone: [604] 661-2600).

The following chart includes the principal operating subsidiaries and partnerships of Methanex as of December 31, 1997 and, for each such subsidiary or partnership, includes the percentage direct or indirect ownership and voting interests in such subsidiary or partnership and the jurisdiction of its organization or location. The chart also shows the principal production facilities of Methanex.



Business of the Company

General

Methanex is the world's largest producer and marketer of methanol. Methanol, produced primarily from natural gas, is a basic chemical building block used to manufacture formaldehyde, methyl tertiary butyl ether ("MTBE"), acetic acid and a variety of other chemical intermediates. These chemical intermediates form the foundation for a large number of secondary derivatives which are used in the manufacture of a wide range of products from plastic bottles to plywood resins. Due to the diversity of the end-products in which it is used, methanol demand is influenced by a broad range of economic, industrial and environmental factors.

Methanex operates strategically located methanol production facilities in North America, New Zealand and Chile and sources additional methanol produced by others throughout the world. Methanol produced by Methanex and sourced from other producers is sold by Methanex through an extensive global marketing and distribution system which has enabled Methanex to become the largest supplier of methanol to each of the major international markets.

As a result of Methanex's worldwide production, marketing and distribution capabilities, Methanex is a preferred supplier of methanol to major chemical and petrochemical producers for whom quality and reliability of supply are important. Methanex believes it benefits from its preferred supplier status through greater stability and security of demand, and resulting marketing and transportation synergies.

Methanex is also a periodic producer of gasoline at its Motunui plant, where the production switching flexibility allows crude methanol to be either distilled to yield chemical-grade methanol or converted into synthetic gasoline through a unique conversion process.

The following table sets forth certain financial and operating data for Methanex's methanol and gasoline operations:

(revenue in millions of US\$; production and sales volumes in thousands of tonnes)	1997	1996	1995	1994	\ 1993
Methanol					
Revenue	\$ 1,294.3	\$ 911.5	\$ 1,179.1	\$ 1,402.9	\$ 408.9
Production	5,091.7	4,455.3	4,005.9	3,622.3	2,270.2
Sales volumes					
Company-produced product	5,048.7	4,579.9	3,939.8	3,403.3	2,263.8
Purchased product	1,853.9	1,556.9	1,381.7	1,471.2	745.8
Total	6,902.6	6,136.8	5,321.5	4,874.5	3,009.6
Gasoline					
Revenue	\$ 5.1	\$ 34.2	\$ 54.2	\$ 72.2	\$ 111.6
Production	13.9	177.5	289.6	466.6	604.3
Sales volumes	22.5	182.5	308.0	459.0	609.8

Methanex's operations consist primarily of the production and sale of methanol which constitutes a single operating segment. See "Selected Consolidated Financial Information – Segmented Information."

Corporate Strategy and Development of the Business

Since 1991, following completion of a significant reorganization of its capital and assets, Methanex has expanded its global methanol production and marketing reach to enable it to become a low-cost producer and preferred supplier in the methanol industry. Methanex's strategy included the development of strategic alliances, initially with Metallgesellschaft Corporation (either alone or together with its affiliates, "Metallgesellschaft") and then with Fletcher Challenge Limited (either alone or together with its subsidiaries, "Fletcher Challenge") and finally with NOVA Corporation (either alone or together with its subsidiaries, "NOVA"), through the acquisition and consolidation into Methanex of methanol production facilities and methanol marketing arrangements. Methanex's strategy has more recently included the addition of production capacity through capital expansion projects.

Methanex has also focused on reducing its delivered costs and increasing its operating flexibility.

As a result of this strategy, Methanex has developed a global presence in the methanol industry that enables it to provide reliable, efficient and cost-effective delivery of methanol from geographically diverse locations to customers in each of the world's major methanol markets.

Methanex has implemented this strategy through the following transactions and capital expansion projects:

1991

In December 1991, in exchange for Common Shares, Methanex acquired Metallgesellschaft's North American methanol interests, consisting of the right to purchase a portion of the production from the methanol plant operated by Enron Clean Fuels Company ("Enron Clean Fuels") in Texas and a one-third interest in Methanex Methanol Company ("MMC", in which Methanex already held a one-third interest) which is a merchant marketer of methanol in the United States.

1992

- In April 1992, in exchange for Common Shares, Methanex acquired Metallgesellschaft's Caribbean methanol interests, consisting of a 10% equity interest in Caribbean Methanol Company Limited ("CMC") and exclusive marketing rights to the major portion of the methanol produced from its subsequently completed plant in Trinidad.
- In September 1992, in exchange for cash, Methanex acquired Metallgesellschaft's European methanol marketing and trading
 operations and certain other interests.
- In November 1992, in exchange for Common Shares and a subsequently exercised option to purchase additional Common Shares,
 Methanex acquired Metallgesellschaft's 70% interest in Fortier Methanol Company ("Fortier Methanol") which was then in the early
 stages of converting an idle ammonia plant in Louisiana into the Fortier methanol facility.

1993

- In January 1993, in exchange for Common Shares, notes and cash (financed through the public offering of Common Shares), Methanex
 combined its business with Fletcher Challenge's methanol and synthetic fuel business, including the Waitara Valley and Motunui
 production facilities in New Zealand and the Chile I methanol facility in Chile.
- · In December 1993, Methanex commenced construction of an additional distillation unit, Distillation III, for its New Zealand facilities.

1994

- In late 1993 and early 1994, Fletcher Challenge and Metallgesellschaft disposed of all of their shareholdings.
- In January 1994, in exchange for Common Shares and cash, Methanex acquired substantially all of NOVA's methanol business and
 operations, including the three adjoining Medicine Hat plants in Alberta. At the same time, the Company issued and sold additional
 Common Shares to NOVA for cash and NOVA became the Company's largest single shareholder.
- In September 1994, Fortier Methanol completed the conversion for the Fortier methanol facility.
- In October 1994, Methanex announced a new capital expansion project for its New Zealand facilities, involving twinning Distillation III
 with construction of another distillation unit, Distillation IV.
- In October 1994, Methanex also announced a new capital expansion project for its facility in Chile, involving construction of Chile II (a new plant adjacent to the existing Chile I plant).
- In December 1994, Methanex completed construction of Distillation III.

1995

- In June 1995, Methanex acquired the remaining minority interest in MMC.
- In June 1995, Methanex completed construction of Distillation IV.
- In August 1995, Methanex sold its interest in the ammonia facility at Kitimat.
- In December 1995, Methanex gave notice of termination of its methanol tolling arrangement with Enron Clean Fuels.

1996

- During the year, Methanex added three newly built time charter vessels of 30,000 dwt each to its expanding fleet of dedicated methanol ships.
- In September 1996, Methanex announced a new capital expansion project at its facility in Chile, involving construction of Chile III
 (a new plant that will be adjacent to the existing plants) which is expected to be completed in the first half of 1999 with a capacity of
 975,000 tonnes.
- In December 1996, Methanex took a one-time write-down of \$93.4 million (net of tax) for the planned idling of a small plant at
 Medicine Hat and for the planned idling of the Waitara Valley plant in early 1998 to accommodate the entry of new low-cost production
 from its Chile II and III plants.
- In December 1996, Chile II came on-stream adding 925,000 tonnes to Methanex's production capacity.

1997

- · In June 1997, Methanex terminated its agreement to market methanol produced at the Leunawerke plant in Germany.
- In July 1997, Methanex placed an order for a new 96,000 dwt time charter vessel, which is approximately twice the size of any of the
 vessels currently in its expanding fleet of dedicated methanol ships. During the year, Methanex also added two newly built time
 charters of 45,000 dwt each to the fleet.
- In July 1997, Methanex completed the idling of its Medicine Hat Plant 2.
- In September 1997, Methanex entered into a memorandum of understanding with Fletcher Challenge Energy Limited to negotiate
 additional gas supplies for its New Zealand plants by the end of 1998. The decision to idle the Waitara Valley plant, planned for early
 1998 and announced in December 1996, was reversed as a result.
- In September 1997, Methanex sold its 10% equity interest in CMC. Methanex retained its exclusive rights to market the output from CMC's plant in Trinidad.
- In November 1997, Methanex entered into a memorandum of understanding with the Qatar state oil and gas company to initiate a feasibility study to consider the development of a new low-cost Middle East "production hub."
- · During the year, Methanex idled the production of gasoline at its Motunui plant for an indefinite period.

The combined effect of the transactions and capital expansion projects described above has been to position Methanex as the global methanol industry leader operating through a transnational production, marketing and logistics network.

Methanol Industry Information

General

Methanol, (chemical formula CH₃OH), also known as methyl alcohol, is a clear colourless liquid which is typically used as a chemical feedstock.

Approximately two-thirds of all methanol is used in the production of formaldehyde, acetic acid and a variety of other chemical intermediates which form the foundation of a large number of secondary derivatives. These secondary derivatives are used in the manufacture of a wide range of products including plywood, particleboard, foams, resins and plastics. The remainder of methanol demand is in the fuel sector, principally as MTBE which is blended with gasoline as a source of octane' and as an oxygenate to reduce the amount of harmful exhaust emissions from motor vehicles. Methanol is also being used on a small scale as a direct fuel source.

Methanol is a typical commodity chemical characterized by cycles of oversupply resulting in depressed prices and idled capacity, followed by periods of shortage and rapidly rising prices as demand catches up and exceeds supply until increased prices justify new plant investment. In addition, the expanding number of different uses for methanol and its derivatives over the last several years has resulted in the methanol industry becoming more complex and subject to increasingly diverse influences.

Demand Factors

Reflecting the diversity of its uses, methanol demand is influenced by a wide range of economic, industrial and environmental factors. The demand for methanol has two primary components: for use in the production of formaldehyde, acetic acid and other chemical products ("chemical derivative demand") and for the production of MTBE and for use as a fuel ("MTBE and fuel demand"). Historically, chemical derivative demand has accounted for the bulk of methanol demand. Because of the importance and relative stability of chemical derivative demand, methanol traditionally had been considered to be a mature commodity. However, in recent years MTBE demand has become increasingly important.

Chemical Derivative Demand. Methanol comprises approximately 45% by weight of the feedstock conventionally used in the production of formaldehyde. The largest use for formaldehyde is as a component of urea formaldehyde and phenol-formaldehyde resins, which are used as wood adhesives for plywood, particleboard, oriented-strand board, medium-density fibreboard and other reconstituted or engineered wood products. In recent years, there has been significant growth in the demand for formaldehyde as a raw material for engineering plastics. Formaldehyde is also used in the manufacture of a variety of other products, including elastomers, paints, building products, foams, polyurethane and automotive products.

Methanol comprises approximately 55% by weight of the feedstock when used in the production of acetic acid. Acetic acid is a chemical intermediate employed principally in the production of vinyl acetate monomer ("VAM"), acetic anhydride, purified terephthalic acid and acetate solvents, which are used in a wide variety of products including adhesives, paper, paints, plastics, resins, solvents, pharmaceuticals and textiles. The acetic acid industry has been benefiting from increasing demand for water-based solvents produced with VAM for use in paints and adhesives due to environmental concerns associated with emissions of volatile organic compounds.

The use of formaldehyde, acetic acid and other products in the building industry means that building and construction cycles and the level of wood production, housing starts, refurbishments and consumer spending are important factors in determining the level of chemical derivative demand. Demand is also increasingly affected by automobile production, durable goods production, industrial investment and environmental and health trends, as well as new product development in the panelboard and plastic packaging industries. Historically, chemical derivative demand for methanol has been relatively unaffected by changes in methanol prices. This demand inelasticity is due to the fact that there are few cost-effective substitutes for methanol in the production of the chemical derivative products of methanol and because methanol costs typically account for only a small portion of the value of many of the end-products.

^{(1) &}quot;octane" is used in broad terms to denote the "octane number" specification commonly associated with gasoline.

As a basic chemical building block, methanol is also used in the manufacture of methylamines, methyl methacrylate and a diverse range of other chemical products, which in turn are ultimately used to make such products as adhesives, coatings, plastics, film, textiles, paint, solvent, paint remover, polyester resins and fibres, explosives, herbicides, pesticides and poultry feed additives and are also used in silicone products and as a substitute for chlorofluorocarbons in aerosol products. Methanol is also used as a de-icer and windshield washer fluid for automobiles as well as an anti-freeze for pipeline dehydration.

MTBE and Fuel Demand. Methanol comprises approximately 36% by weight of the feedstock used in the production of MTBE. The other principal component of MTBE is isobutylene. The principal uses of MTBE are as a source of octane and as an oxygenate for gasoline. Its high octane value and clean-burning properties significantly reduce hydrocarbon and carbon monoxide emissions from motor vehicles. MTBE was initially used as a source of octane in connection with the introduction of unleaded gasolines. Recent environmental concerns and legislation have shifted demand towards the use of MTBE as an oxygenate in gasolines in order to reduce the level of carbon monoxide and ozone depleting emissions. In the United States, MTBE's oxygenate value has become the most significant factor in its use, while elsewhere, MTBE currently continues to be used primarily as a source of octane.

One of the most important determinants of the future level of demand for MTBE as an oxygenate arises from the implementation of the 1990 amendments to the Clean Air Act in the United States (as amended, the "Clean Air Act"). The Clean Air Act mandates the use of cleaner-burning oxygenated gasolines under two programs. The winter-time oxygenated fuel ("oxy-fuel") program was introduced in November 1992 and requires the use of gasoline containing 2.7% oxygen by weight to reduce carbon monoxide emissions. This program was complemented by the commencement at the beginning of 1995 of the year-round reformulated gasoline ("RFG") program which generally requires gasoline oxygen content of 2.0% by weight. The RFG program is designed to reduce ozone-forming compounds and toxic air emissions. Use of MTBE as an oxygenate requires approximately 11% and 15% MTBE volume in gasoline to meet the 2.0% and 2.7% weight standards, respectively.

The oxy-fuel program was initially applied in 39 U.S. cities (accounting for approximately 33% of U.S. gasoline demand) which were classified as carbon monoxide non-attainment areas. Since the introduction of the RFG program, certain cities have been able to meet the oxy-fuel program's carbon monoxide attainment standards through compliance with the RFG program. The length of the winter oxy-fuel season ranges from four months in most areas to seven months in certain areas that voluntarily extend the season.

The year-round RFG program is mandated in ten U.S. cities which are classified as extreme or severe ozone non-attainment areas. Certain of these cities in carbon monoxide non-attainment areas are required to meet the higher oxy-fuel oxygen weight standards during the winter oxy-fuel season. The Clean Air Act provides that a state, through its governor, may voluntarily elect to opt-in to the RFG program in marginal non-attainment areas of the state. Several states have made this election. In addition, in response to joint petitions from several state governors, the U.S. Environmental Protection Agency (the "EPA") is currently considering whether to permit attainment areas to opt-in to the RFG program. The entire State of California has implemented a mandated RFG cleaner burning gasoline program which commenced in the March to June 1996 time period. Altogether, approximately 30% of the United States gasoline demand is now served by oxygenated and reformulated gasolines.

The initial impact of the Clean Air Act has been to increase demand for the oxygenates required for the production of reformulated gasoline. MTBE, ethanol (which is produced from corn) and other substantially similar blends of ethers and alcohols (except methanol) constitute the oxygenates approved for use under the Clean Air Act. Currently, MTBE is considered the oxygenate of choice by the refining industry, as evidenced by the industry's support of MTBE over other oxygenates due to its compatibility with the gasoline blending and distribution systems and by the large number of MTBE plants built in recent years.

MTBE in reformulated gasoline has made a significant contribution to improving air quality in California and other states. Notwithstanding this, there have been concerns raised over potential health issues. In California, legislation was passed which requires that a study of MTBE and other fuel oxygenates be completed by January 1, 1999 to verify that the health benefits outweigh any risks. This legislation was passed largely due to publicity surrounding MTBE being detected in drinking water, most likely sourced from leaking underground gasoline storage tanks. MTBE has been the subject of extensive study. Methanex is not aware of any evidence that MTBE, when used as a gasoline additive, represents a health risk.

Certain oil refiners are seeking an amendment to the Clean Air Act to exempt California from the oxygenate requirement in reformulated gasoline. This appears to have been initiated to allow the refiners greater flexibility in blending gasoline.

Despite the uncertainty caused by these initiatives, new capital continues to be committed to the construction of world-scale MTBE facilities.

The future demand for MTBE in the United States will be affected by the degree to which the Clean Air Act amendments are enforced, the possible adoption of additional legislation, the willingness of the regulatory authorities to grant waivers for specific cities or regions, the difficulty in isolating non-attainment areas from attainment areas and the demand for oxygenated or reformulated gasoline in areas where its use is not mandated or required. Waivers have been requested for certain areas subject to the Clean Air Act and a number of other areas that had previously voluntarily opted-in to the RFG program have opted-out or reduced their oxygen content requirements.

Outside the United States, there is potential for future growth in demand for MTBE in countries that have been following the trend towards cleaner-burning oxygenated gasolines.

Although Methanex believes that MTBE growth will account for a significant portion of new methanol demand through the next several years, both for its cleaner-burning gasoline value and for its traditional octane value, there can be no assurance as to future growth rates in demand for MTBE or methanol.

Methanol is also used in a developing market as a direct fuel source in direct blends with gasoline and other applications, though currently this remains a small market segment. There have been initiatives in the United States relating to mandated use of alternative fuelled or flexible-fuelled vehicles and several automobile manufacturers have developed vehicles able to operate using methanol for such purposes. Methanol is also believed to have good potential as a clean-burning peak-power generating fuel and fuel cell advancements using methanol are being developed as an alternative means of generating energy in an environmentally beneficial manner that does not use traditional combustion. Methanex is devoting resources to the advancement of new technologies, such as diesel/methanol blends, and is supporting the development of infrastructure to supply methanol for use in fuel cells.

Supply Factors

Natural gas costs account for the major portion of the cash operating costs of most methanol producers and are typically followed in order of importance by distribution costs and operating costs. Newer plants have generally been constructed in locations with low-cost gas, offset in some instances by higher distribution costs due to their distance from major markets.

There is typically a two-and-a-half to four-year lead time to plan and construct a new methanol plant and, depending on design capacity and other factors, the capital cost for a world-scale plant can exceed \$350 million. From time to time there may be a number of proposals for new plants, particularly during periods of high methanol prices. Excluding the Methanex Chile III plant which is expected to be completed in the first half of 1999, there are currently four new plants of significance known to Methanex to be either underway or probable before 2000. The four include: PT Kaltim in Indonesia (660,000 tonnes per annum, scheduled to come on-stream in 1998); Methanol IV in Trinidad (550,000 tonnes per annum, scheduled to come on-stream in late 1999); and Ar Razi IV in Saudi Arabia (850,000 tonnes per annum, scheduled to come on-stream in late 1999).

Depending, in part, on methanol prices, additional capacity could potentially become available as a result of restarts of old methanol plants that have previously been shut down or through major expansions of existing plants.

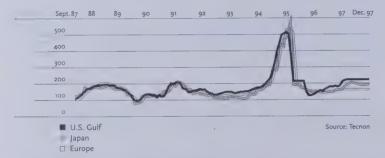
Increased capacity can also be generated on an incremental basis by "debottlenecking" existing plants to increase their ability to produce methanol.

As is typical of cyclical commodity chemicals, there is a risk that a long period of relatively high methanol prices could encourage construction of new plants and major expansion projects which could lead to oversupply. On the other hand, the significant amounts of capital and long construction times required and the need for global marketing operations to successfully participate in the business unless fully contracted off-take agreements are secured, coupled with the historical volatility of methanol prices, may discourage investors and financial institutions and make it difficult to finance these types of projects.

Methanol Prices

Methanol prices have historically been characterized by significant volatility and have been sensitive to overall production capacity relative to demand, the availability and price of natural gas feedstock and the level of general business activity. During the last ten years, there have been four periods of high prices. The first period, from 1987 to 1989, was caused by a mismatch between supply and demand. The industry closed capacity in response to low prices immediately prior to a period when demand increased because of growth in global construction and commodity markets. The second period, in 1990-91, was an inventory-inspired demand surge driven by uncertainty over the security of Middle East supply at the time of the Gulf War. The third period started in late 1993 as a result of a combination of unplanned capacity outages and routine shutdowns which coincided with a strong global economic recovery and continued into 1994 with the increase in MTBE demand as a consequence of the implementation of the RFG program under the Clean Air Act. At that time, methanol prices increased in an unprecedented manner and, after reaching a peak in late 1994, began a year-long decline as a result of additional supply coming on-stream, increased operating rates and the temporary shutdown of some MTBE facilities. After reaching a low of \$130 per tonne in November 1995, the average U.S. Gulf Coast posted contract barge price has increased steadily through 1996 and 1997. Pricing has been relatively stable throughout the second half of 1997 at approximately \$180 - \$190 per tonne.





Methanol prices in the United States are posted monthly by the major methanol producers, including Methanex. The majority of product is sold on a contract price basis, although discounts can be applied to the contract price. Supply contracts generally specify a minimum and a maximum volume and may include a "meet or release" clause that enables either party to walk away if agreement on price cannot be reached. Spot transactions also occur and are widely reported in weekly industry newsletters.

The Rotterdam contract price is the main indicator for Europe. This price is negotiated quarterly between the major customers and suppliers in the region, including Methanex. Minimum and maximum volumes are generally specified in supply contracts with European customers. As with the United States market, spot transactions also occur.

The third major market, Japan, has prices which are linked to the United States and European market prices.

As methanol is an internationally traded commodity, methanol prices in the United States, Europe and Japan have largely tracked each other, though often with leads or lags. In times when the markets diverge, product from off-shore suppliers moves into the higher priced market, eventually bringing the markets back into alignment.

Production

Production Processes

Methanol is a liquid petrochemical made from feedstocks containing carbon and hydrogen. The methanol manufacturing process employed by most of the industry, including Methanex, involves heating natural gas, mixing it with steam and passing it over a nickel-based catalyst, where the mixture is converted into carbon monoxide, carbon dioxide and hydrogen. This reformed gas (also known as synthesis gas) is then cooled, compressed and passed over a copper-zinc catalyst to produce crude methanol. Crude methanol consists of approximately 80% methanol and 20% water. In order to convert it to chemical-grade methanol, crude methanol is distilled in a series of distillation towers which remove water, higher alcohols and other impurities.

The manufacturing process employed by Methanex for converting crude methanol into synthetic gasoline at its Motunui plant in New Zealand involves heating the crude methanol and passing it over an alumina catalyst which forms di-methyl-ether, methanol and water. This stream is then combined with recycled gas as it enters a gasoline-conversion reactor which uses a catalytic process and zeolite catalyst to produce gasoline. The gasoline then passes to a distillation section where it is separated into heavy gasoline, light gasoline and a high vapour pressure blending component which is subsequently treated and blended to the requisite customer specification. Methanex has the necessary rights to the process and catalyst which are both proprietary to a subsidiary of Mobil Oil Corporation ("Mobil").

Operating Data and Other Information

Methanex endeavours to operate its production facilities around the world in an optimal manner, by balancing its production with customer demand throughout Methanex's global supply chain and by taking advantage of its operating flexibility to switch production to the lowest-cost plants to optimize the overall delivered cost of methanol. Scheduled shutdowns of plants are necessary to change catalysts or perform maintenance activities which cannot otherwise be completed with the plant on-line (a process commonly known as a turnaround). Major turnarounds that include changing the catalyst typically take between three and four weeks. Catalysts generally need to be changed every three to four years, although there is flexibility to extend catalyst use if market conditions warrant, at the expense of some production efficiency. Careful planning and scheduling is required to ensure that maintenance and repairs can be carried out during turnarounds. In some circumstances this is not possible, and both scheduled and unscheduled shutdowns may occur between turnarounds.

The following table sets forth certain operating data and other information for Methanex's methanol and gasoline operations at each of its existing facilities:

	Nominal Rated Operating Capacity (tonnes/year)	1997 Production (tonnes)	1996 Production (tonnes)	Year Built
Methanol				
Kitimat, Canada	500,000	479,960	435,881	1982
Medicine Hat, Canada		,,,,,,	155.	.,,
Plant 1	260,000	181,482	218,924	1975
Plant 2 (idled in mid-1997, 270,000 tonnes/year capacity) (a)	_	93,106	244,222	1976
Plant 3	570,000	481,035	583,701	1981
Fortier, United States (b)	400,000 (c)	316,294	247,940	1994
Enron, United States (d)		_	10,871	_
Waitara Valley, New Zealand	530,000	509,623	548,887	1983
Motunui, New Zealand				
Distillation II	500,000 (e)	400,995	371,201	1990
Distillation III	700,000 (e)	560,634	529,709	1994
Distillation IV	700,000 (e)	433,650	396,851	1995
Punta Arenas, Chile		100	33 . 3	
Chile I	800,000	766,359	853,340	1988
Chile II (f)	925,000	868,559	13,788	1996
Total	5,885,000	5,091,697	4,455,315	
Gasoline				
Motunui, New Zealand	720,000 (g)	13,888	177,548	1985

⁽a) The Medicine Hat 2 plant can be restarted within 3 months.

⁽b) Fortier Methanol is operated by Methanex's joint venture partner in Fortier Methanol, Cytec Methanol Inc.

⁽c) Based on Methanex's 70% interest in Fortier Methanol. The actual nominal rated operating capacity is 570,000 tonnes per year.

⁽d) Methanex terminated its methanol tolling arrangement with Enron effective February 1996.

⁽e) Assumes crude methanol from Motunui is transferred to Distillation II, Distillation III or Distillation IV for conversion into chemical-grade methanol.

⁽f) Chile II began production in December 1996.

⁽g) Assumes no crude methanol from Motunui is transferred to Distillation II, Distillation III or Distillation IV for conversion into chemical-grade methanol.

New Production Facilities

In September 1996, Methanex announced the construction of a third plant, Chile III, adjacent to the existing plants. Chile III will be a stand-alone entity, although it will share infrastructure with the existing plants. The new plant is expected to have a nominal rated operating capacity of 975,000 tonnes of methanol per year.

Natural gas for the expanded facility will be supplied under 20-year contracts and sourced from both Argentina and Chile through the existing infrastructure which is to be enhanced by approximately 50 kilometres of pipeline looping. The purchase price for natural gas under these supply contracts is based upon a fixed U.S. dollar price adjusted by a set formula related to prevailing methanol prices.

The Chile III expansion project is currently expected to be completed during the first half of 1999 at an estimated capital cost of \$305 million.

Purchased Product

Methanex engages in additional merchant methanol marketing through offtakes of methanol produced by others. Methanex sources further additional methanol through its trading operations in the United States and European methanol spot markets.

The annual sales volume of methanol purchased by Methanex for resale in 1997 was 1,853,945 tonnes compared to 1,556,924 tonnes in 1996.

The following table sets forth certain information with respect to Methanex's marketing and supply arrangements for third-party sourced methanol:

	Methanol (ton	nes/year)	
Source	1998 Expected	1997 Actual	Nature of Arrangement
Fortier, United States	120,000 (a)	136,273	Methanex purchases methanol from its joint-venture partner's share of production from Fortier. Methanex has a 70% ownership interest in Fortier.
Leunawerke, Germany	nil	120,190	Methanex had a firm commitment to purchase up to 200,000 tonnes. This agreement ended in June 1997.
Caribbean Methanol, Trinidad	500,000 (a)	4 16,067	Methanex has a commitment to purchase up to 500,000 tonnes with an option on additional volume from the Caribbean Methanol plant.
Other	— (b)	1,181,415	Product purchased from other sources including the spot markets.
Total	— (b)	1,853,945	

- (a) These volumes are estimates only, and no assurance can be given that such volumes will actually be purchased in 1998.
- (b) Amount of product purchased in 1998 will be a function of market dynamics and Methanex's cost to purchase versus internal supply options.

Methanol Marketing

Methanex sells methanol on a worldwide basis to every major market through an extensive marketing and distribution system with marketing offices in the United States (Dallas), Belgium (Brussels), Canada (Vancouver), New Zealand (Auckland) and Chile (Santiago).

Methanex's marketing strategy is to develop and maintain a strong customer base in North America, Latin America, Europe and Asia, which are the world's major markets, as well as in other markets which are strategically located in relation to Methanex's production facilities, to form direct customer relationships rather than sell to methanol traders and to secure and maintain long-term sales contracts with major end-users.

Methanex's ability to sell methanol from its geographically diverse, multiple production sites enhances its ability to secure major chemical and petrochemical producers as customers, for whom quality and reliability of supply are important. The breadth of Methanex's network of marketing offices, together with its storage facilities and worldwide shipping arrangements, also allows Methanex to provide larger customers with multi-national sourcing of product and other customized arrangements. As a result of its worldwide production, marketing and distribution capabilities, Methanex is a preferred supplier in the methanol industry and the largest supplier to each of the major international methanol markets.

Methanex augments its marketing operations by identifying surplus product from other producers and trading in the United States and European methanol spot markets. This enables Methanex to service a portion of the contract and spot requirements of its customers wherever the economics are favourable. Methanex continually evaluates its cost to serve markets and maintains internal flexibility so as to be able to quickly decide whether to make or buy methanol. Product that is purchased outside of contracted offtake arrangements provides Methanex the opportunity to build its sales base prior to bringing on its own new capacity.

Approximately 90% of Methanex's current methanol production and committed third-party sourced methanol is covered by long-term or rolling one-year sales contracts. Pricing formulas under these contracts are generally determined on the basis of posted contract or other market prices at the time of shipment. None of Methanex's customers accounted for more than 10% of Methanex's total revenue in 1997.

Trade in methanol is subject to duty in a number of jurisdictions and is paid for by third parties except in the case of methanol sold into the European Community from Chile, in respect of which Methanex, during 1998, will incur a duty of 7.07%. Methanol produced in Chile can be sold in the United States without duty. Accordingly, Methanex augments its supply to that market from Chile. Methanol produced by Methanex in New Zealand is sold in Japan, Korea, Taiwan, Australia and other Asian countries (excluding Indonesia) without the imposition of duties. Methanol from Canada is sold in the United States and Japan where it is exempt from duties. Methanol produced in the United States is sold domestically.

Methanol Distribution and Logistics

Due to the locations of Methanex's plants in New Zealand and Chile, the cost of methanol distribution represents a significant portion of total costs and is important to Methanex's overall profitability. Kitimat is well positioned on the great-circle routes for shipping methanol to the Asian markets and the United States, and is the lowest-cost methanol supply point for serving the California and Pacific Northwest markets. The Medicine Hat facility positions Methanex as a low-cost supplier to the Canadian and northern United States methanol markets. Methanol from Fortier is sold to local customers.

Methanol is pumped from Methanex's coastal plants by pipeline to adjacent deep-water ports for shipping. Methanex currently manages a fleet of time-chartered vessels to ship this methanol. In North America and Europe, barge, rail and, to a lesser extent, truck transport are also used in Methanex's delivery system. Methanex also leases storage and terminal facilities in the United States, Canada, Europe and Asia.

Gasoline

The Motunui plant in New Zealand is capable of producing 720,000 tonnes of unleaded gasoline, a rate of 17,700 barrels per operating day, assuming all of Motunui's crude methanol is converted into gasoline instead of chemical-grade methanol.

Most of the gasoline produced at Motunui's facilities has been sold in the domestic New Zealand wholesale market in the last several years. However, from time to time, gasoline from Motunui has been exported to Australia, Japan, other Asian countries and the United States when the supply of unleaded gasoline produced at Motunui exceeds demand in the New Zealand domestic market. In New Zealand, Motunui's unleaded gasoline is sold either directly as a primary vehicle fuel or as a blending component for other higher grades of gasoline at the Marsden Point Refinery, the only domestic refinery in New Zealand.

With the completion of Distillation IV in June 1995, Methanex's gasoline supply obligations with Mobil were replaced by a new arrangement whereby Mobil, as Methanex's agent, markets gasoline produced at Motunui and in return Mobil is entitled to share in certain incremental profit from methanol production through Distillation IV.

Crude oil prices are the major determinant of the price received by Methanex for its gasoline. Another significant factor is the price of gasoline in Singapore (which is the reference price for the Asia-Pacific market). High demand for methanol and the need to utilize gas reserves in the product with the highest return have led, in 1997, to the cessation of gasoline production for an indeterminate period.

Natural Gas Supply

General

Natural gas is the principal feedstock for Methanex's products and accounts for a significant portion of its total production costs. Accordingly, the profitability of Methanex depends in large part on both the security of supply and the price of natural gas. Part of Methanex's long-term strategy has been to secure continuity of natural gas supply at favourable prices through a combination of long-term contracts and activity in the open market. Since Methanex is able to deliver methanol to its customers from a number of production facilities located throughout the world, its dependency on any one source of natural gas as well as the impact of the conditions of any regional market are diminished.

If for any reason Methanex is unable to obtain sufficient natural gas for any of its plants on commercially acceptable terms, it could be forced to curtail production or close such plants.

To protect against North American short-term natural gas price volatility, Methanex, from time to time, enters into both physical and financial contracts which fix the price of natural gas. For discussion of Methanex's feedstock hedging activities, refer to Management's Discussion and Analysis.

Canada

Methanex sources its natural gas for Kitimat from the fields in northeastern British Columbia, and constitutes the largest industrial purchaser of natural gas in British Columbia. Substantial volumes of gas are available from British Columbia producers, a situation that is expected to continue for the foreseeable future.

Most of the natural gas feedstock for Kitimat is purchased directly from producers or other marketers under indexed-price contracts entered into annually and the balance is acquired on the spot market. Firm gas requirements are purchased to match firm transportation agreements and long-term plant operating plans. British Columbia gas prices are set in an intensely competitive market and can fluctuate widely. Wellhead prices from British Columbia producers historically have been among the lowest in North America due to surplus capacity and the distance to export markets in the United States.

Natural gas purchased for Kitimat is transported through pipeline transmission systems operated by Westcoast Energy Inc. ("Westcoast") and its affiliate, Pacific Northern Gas Ltd. ("PNG"). During 1997, the majority of PNG's total volume in its pipeline system, which extends from Kitimat to Westcoast's main transmission line, represented natural gas delivered to Methanex's facilities. PNG and Westcoast are each regulated public utilities whose tolls, rates and tariffs for processing and transporting gas are approved and set by government agencies through a public hearing process. Methanex's transportation service agreements provide for delivery of most of its natural gas requirements on a firm basis with the remainder on an interruptible basis. The delivered cost of gas varies with quantities purchased and Methanex is obliged to pay for certain minimum annual pipeline charges.

Methanex sources its natural gas for Medicine Hat from the nearby fields of Alberta which offer substantial volumes of available gas. Natural gas for Medicine Hat is purchased from a number of suppliers under a mix of contracts, with fixed, annually adjusted and index related prices. Small quantities are also purchased on the daily spot market to balance production. Alberta gas prices are set in an intensely competitive market and can fluctuate widely.

A further important competitive factor for the Medicine Hat operation has been the historic price differential between natural gas prices in Alberta and the U.S. Gulf Coast. This differential results from the transportation cost difference and the relative supply/demand balance in Alberta. A number of pipeline expansions are currently being considered to increase natural gas export capacity from Alberta to the United States. Should these projects proceed, gas prices in Alberta may increase.

United States

Transportation of natural gas to the Fortier site is conducted under a number of two to seven year term transportation contracts with costs determined annually. The transportation contracts are matched in quantity to physical gas deliveries. Natural gas prices in Louisiana are set in an intensely competitive market and can fluctuate widely.

New Zealand

Natural gas for the Waitara Valley and Motunui plants is sourced from the Maui and Kapuni fields, which currently account for approximately 83% and 11%, respectively, of New Zealand's total annual production of natural gas. The Maui field is a relatively deep-water offshore field located approximately 35 kilometres off the coast of the North Island of New Zealand. On an annual basis, it provides approximately 80% of the natural gas used at Waitara Valley and Motunui. Kapuni is an on-shore field located on the North Island. The natural gas from the Kapuni field contains a higher carbon dioxide content than the gas from the Maui field. While this quality makes the Kapuni gas unsuitable for most other conventional uses without additional treatment, the addition of carbon-dioxide-rich Kapuni gas to the principal Maui gas feedstock improves the efficiency of methanol production at Waitara Valley and Motunui.

Methanex has the right to purchase natural gas from the Maui field under supply contracts with take-or-pay obligations which terminate in 2003 and 2005. Any contract quantities of natural gas paid for but not taken by Methanex in any year generally may be taken in any subsequent year until 2006 without further payment once the contract quantity for that year has been taken. The purchase price for natural gas under these contracts is based upon a fixed New Zealand dollar price which was established in 1975, adjusted annually upward or downward by a factor which is based on, but in all cases is less than, a specified New Zealand inflation rate index for the previous year.

The contractual supplier to Methanex of natural gas from the Kapuni field purchases the gas from the owners of Kapuni. Methanex is obligated to purchase, and the supplier is obligated to supply, a specified annual quantity of natural gas through 2003. This gas must be sourced from the Maui field if gas from the Kapuni field is not available. Methanex also has a contract with this supplier for the purchase of additional Kapuni gas through to 1999, which may be renewed by Methanex for an additional five-year period in 1999 so long as there are sufficient supplies of Kapuni gas available. The purchase price for natural gas under these contracts is essentially equivalent to the purchase price under the Maui gas contracts, plus certain additional inflation-adjusted fixed amounts.

If the New Zealand plants were operated continuously at capacity the contractual natural gas entitlements would be consumed earlier than the expiry of the contracts. Until recently the prospects for additional gas to service these plants appeared limited, and in 1996 Methanex made a decision to focus methanol production at the Motunui site and to idle the Waitara Valley plant beginning in 1998. This decision resulted in Methanex writing down the carrying value of the Waitara Valley plant. In 1997, the likelihood of purchasing additional gas improved significantly and Methanex made the decision to continue operating the Waitara Valley plant. Methanex has been offered a number of small parcels of natural gas and has signed a memorandum of understanding with Fletcher Challenge Energy Limited to work with it to secure additional large volumes to operate the plants for the longer term.

There can be no assurance that Methanex will be able to secure additional gas on commercially acceptable terms, although the likelihood of doing so has improved.

Chile

Natural gas feedstock for the Chile I plant is supplied by Empresa Nacional del Petroleo de Chile ("ENAP") under a long-term take-or-pay contract which runs through 2008. ENAP is a Chilean state-owned energy company which has monopoly rights over all oil and natural gas in Chile. Natural gas feedstock for the Chile II plant is supplied, 70% by sellers in Argentina and 30% by ENAP, under long-term take-or-pay contracts that run through 2016. Under the terms of the contracts, the sellers are obligated to supply, and Methanex is obligated to take or pay for, a specified annual quantity of natural gas. Methanex also has an option to purchase up to an additional specified amount each year. Any contract quantities of natural gas paid for but not taken by Methanex in any calendar quarter generally may be taken in any subsequent quarter without further payment once the contract quantity for that quarter has been taken.

The purchase price for natural gas for both Chile I and Chile II is based upon a fixed U.S. dollar price adjusted as determined by a set formula related to prevailing methanol prices.

The Chilean facilities are located close to other natural gas reserves in Chile and Argentina which Methanex believes it could access on commercially acceptable terms after the expiration or earlier termination of the ENAP and Argentine gas supply contracts.

Foreign Operations and Government Regulation General

Methanex's operations in Canada, the United States, New Zealand, Chile, Europe and elsewhere are, to a certain extent, affected by political developments and by federal, provincial, state and other local laws and regulations. However, to date, Methanex has been able to substantially comply in all material respects with governmental requirements without incurring significant costs.

Methanex Corporation is a Canadian company with subsidiaries that operate production facilities in New Zealand and Chile and which owns a 70% interest in a production facility in the United States. As a result, Methanex is subject to risks inherent in foreign operations, including loss of revenue, property and equipment as a result of hazards such as expropriation, nationalization, war, insurrection and other political risks, risks of increases in duties, taxes and governmental royalties and renegotiation of contracts with governmental entities, as well as changes in laws and policies governing operations of foreign-based companies.

In addition, because the Company derives a substantial portion of its revenues from production and sales by subsidiaries outside of Canada, the payment of dividends or the making of other cash payments or advances by its subsidiaries to the Company may be subject to restrictions or exchange controls on the transfer of funds in or out of the respective countries or result in the imposition of taxes on such payments or advances. Methanex has organized its foreign operations in part based on certain assumptions about various tax laws (including capital gains and withholding tax), foreign currency exchange and capital repatriation laws and other relevant laws of a variety of foreign jurisdictions. While Methanex believes that such assumptions are correct, there can be no assurance that foreign taxing or other authorities will reach the same conclusion. Further, if such foreign jurisdictions were to change or modify such laws, Methanex may suffer adverse tax and financial consequences.

Trade in methanol is subject to duty in a number of jurisdictions and is paid by third parties except in the case of methanol sold by Methanex into the European Community from Chile where Methanex currently incurs a duty of 7.07%. Although Methanex does not currently pay any duties in any other major market to which it exports its products, there can be no assurance that such duties will not be levied in the future or, in such event, that Methanex would be able to mitigate the impact on its business of such duties through techniques such as physical swaps of methanol which it has used to minimize the impact of duties in the past.

For discussion of Methanex's currency hedging activities refer to Management's Discussion and Analysis.

New Zealand

The New Zealand Government imposes a levy on the producers of natural gas in New Zealand. This levy applies to natural gas from the Maui and Kapuni fields at the fixed rate of NZ\$ 0.45 per gigajoule. In line with natural gas industry practice, Methanex's New Zealand natural gas supply contracts specify that an amount equal to the levy is to be paid by Methanex in addition to the base contract purchase price of natural gas. Accordingly, if the government were to change the amount of the levy, this would have a direct effect on the natural gas costs incurred by Methanex.

The New Zealand Government also has the power to impose constraints on demand, manufacturing, export and distribution of petroleum products (including gasoline and methanol produced by Methanex). This law gives the government powers to deal with a petroleum supply shortage or strategic need upon a basis similar to laws enacted in a number of countries during the oil shortages of the 1970s and early 1980s. Accordingly, the government's powers to intervene in the oil and gas industry are broad and override contractual and other private sector arrangements.

New Zealand enacted legislation in 1986 to safeguard claims by Maori tribes (the indigenous people of New Zealand) against lands previously owned by state-owned enterprises and subsequently privatized. The land on which certain parts of the infrastructure for the Waitara Valley and Motunui plants are located (for example, a tank farm for storing gasoline and various pipelines and pipeline valve and mixing stations) are subject to this legislation. There is a possibility that the tribunal which deals with Maori land claims could recommend the return of such land to Maori ownership. The New Zealand Government would be required to comply with such a recommendation, subject to payment of compensation to the affected owner. Methanex believes that, subject to receiving adequate compensation, such a forced divestment would not be likely to have a material adverse effect on its operations or financial condition. The land upon which the Waitara Valley and Motunui plants are located and the surrounding buffer zones of farmland owned by Methanex are not subject to such forced divestment procedures.

Methanex is not subject to any exchange control or other governmental restrictions relating to the movement of money into or out of New Zealand.

Chile

Methanex Chile Limited ("Methanex Chile") is an indirectly wholly-owned subsidiary of the Company and owns the existing Chile I and Chile II plants as well as the Chile III plant currently under construction. Chilean foreign investment regulations provide certain additional benefits and guarantees to companies which enter into a foreign investment contract ("DL600 Contract") with the Government of Chile. Methanex Chile has entered into three substantially identical DL 600 Contracts, one for each of the two existing plants and another for the third plant under construction.

Under the DL 600 Contracts, Methanex is authorized to remit from Chile in United States dollars or any other freely convertible currency all or part of its profits and its equity subject to certain conditions. Methanex Chile also has the right under the DL 600 Contracts to pay income taxes under the general tax regime at a fixed rate of 42% for twenty years. Alternatively, Methanex Chile can elect to pay income tax at the general applicable rates (currently 35%) for domestic Chilean companies. Once this election is made it is irrevocable and Methanex Chile would become subject to the regular tax system. Methanex Chile has not yet made such election.

The proceeds of applicable export sales can be held in a foreign account monitored by the Chilean Central Bank to facilitate payments of plant operating costs, debt servicing, dividends and equity repatriation. Until recently, all other export proceeds were required to be repatriated to Chile within a certain time period. However, recent amendments to foreign exchange regulations have negated the requirement for Methanex Chile to return any proceeds to Chile, and funds may be held offshore indefinitely.

The DL600 Contracts provide that they cannot be amended or terminated except by written agreement signed by both Methanex Chile and the Chilean state.

Environmental Matters

Canada, the United States, New Zealand and Chile all have laws governing the environment and sustainable management of natural and physical resources and the handling, storage, transportation and disposal of hazardous or waste materials. Methanex is also subject to laws governing the import, export, use, discharge, storage, disposal and transportation of toxic substances. The substances used and produced by Methanex are subject to regulation under various health, safety and environmental laws. Non-compliance with, or violation of, these laws and regulations may give rise to work orders, fines, injunctions, civil liability and criminal sanctions.

As a result of periodic external and internal audits, Methanex believes that it is currently in substantial compliance in all material respects with all existing environmental, health and safety laws and regulations to which its operations are subject. Laws and regulations protecting the environment have become more stringent in recent years and may, in certain circumstances, impose strict liability rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. Such laws and regulations may expose Methanex to liability for the conduct of, or conditions caused by, others, or for acts of Methanex that were contractually required of it and were in compliance with all applicable laws at the time such acts were performed. To date, such environmental laws and regulations have not had a material adverse effect on Methanex. However, the ongoing operations of petrochemical manufacturing plants entail risks in this area and there can be no assurance that material costs or liabilities will not be incurred.

Methanex, as a member of the Canadian Chemical Producers' Association, is committed to Responsible Care. Accordingly, policies, systems and procedures have been established within Methanex to promote and encourage the responsible development, introduction, manufacture, transportation, storage, handling, distribution, use and ultimate disposal of chemicals and chemical products so as to minimize adverse effects on human health and well-being and on the environment.

Insurance

A substantial portion of Methanex's revenues are derived from the operation of its plants. Under certain conditions, prolonged shut-downs of plants due to unforeseen equipment breakdowns, interruptions in the supply of natural gas, power failures or any other reason, including any event of *force majeure*, could materially adversely affect Methanex's revenues and earnings from operations. Methanex's business is subject to the normal hazards of methanol and gasoline operations that could result in damage to its plants. Methanex maintains insurance, including business interruption insurance, that it considers to be adequate under the circumstances. However, there can be no assurance that Methanex will not incur losses beyond the limits of, or outside the coverage of, such insurance. From time to time various types of insurance for companies in the chemical and petrochemical industries have been very expensive or, in some cases, unavailable. There can be no assurance that in the future Methanex will be able to maintain existing coverage or that premiums therefor will not increase substantially.

Employees

As of December 31, 1997, Methanex had 841 employees. In addition, there were 510 contractors working at the Chile facility, including the Chile III construction site. The Methanex workforce is non-union except for 32 employees at the New Zealand facilities who are union members covered by site-specific collective bargaining agreements.

Methanex has an employee share purchase plan for its employees throughout the world, and as of December 31, 1997, approximately 80% of employees were participating in the plan.

Selected Consolidated Financial Information Five-Year Summary

Years ended December 31 (millions of US dollars except per share amounts)	1997	1996 (a)	1995	1994	1993
Statement of Earnings Data					
Revenue	1,299	946	1,249	1,488	533
Net earnings	202	(8)	192	435	10
Per share net earnings	1.10	(0.04)	1.01	2.20	0.06
Balance Sheet Data					
Total assets	1,969	1,771	1,749	1,688	970
Long-term debt	398	398	421	408	441

Quarterly Summary (unaudited)

_	1997					1996				
(millions of US dollars except per share amounts)		Three N	Months Ended			Three M	onths Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31 (a)		
Revenue	332	337	308	322	218	227	237	264		
Net earnings	51	65	50	36	14	11	24	(57)		
Per share net earnings	0.27	0.34	0.27	0.20	0.08	0.06	0.13	(0.3)		

Segmented Information

(millions of US dollars)	Canada	United States	Japan	Other Asia	Europe	Latin America	Total
Revenue (b)			V-1		23.000	747761168	Total
1997	51.9	375-4	205.8	245.9	274.4	146.0	1,299.4
1996	42.8	270.4	138.2	188.1	197.0	109.2	945.7
(millions of US dollars)	Canada	United States	New Zealand	Chile	Total		
Property, plant & equipment							
1997	189.3	121.5	244.1	509.7	1,064.6		
1996	202.0	125.8	283.7	409.0	1,020.5		

⁽a) 1996 earnings were affected by a \$93.4 million write-down of property, plant and equipment. Excluding the write-down, earnings per share were \$0.45 for 1996 and \$0.20 for the fourth quarter of 1996.

⁽b) Revenue is attributed to countries or regions based on location of customer.

Dividends

The indenture governing Methanex's U.S. debt securities imposes certain limitations on the declaration or payment of cash dividends on the Common Shares of the Company or other shareholders' distributions to an amount which, after giving effect to such payment or distribution, would cause the Company's consolidated shareholders' equity to be less than \$850 million.

Management's Discussion and Analysis

Management's Discussion and Analysis which appears in the Company's 1997 Annual Report is incorporated herein by reference.

Market for Securities

The Common Shares of the Company are listed on The Toronto Stock Exchange and the Montreal Exchange in Canada and are quoted through The NASDAQ Stock Market in the United States.

Directors and Officers

The following sets forth the names and municipalities of residence of the directors and officers of the Company, the offices held by them in the Company, their current principal occupations, any other principal occupations during the last five years and, in the case of the directors, the month and year in which they became directors:

Name and Municipality of Residence	Office	Principal Occupations and Positions During Last Five Years	Director Since
Choquette, Pierre West Vancouver, British Columbia	President, Chief Executive Officer and Director	President and Chief Executive Officer of the Company since October 1994. Prior thereto held various senior executive positions with NOVA.	October 1994
Findlay, Robert B. (2)(3) West Vancouver, British Columbia	Director	Corporate Director, Prior to October 1997 was President and · Chief Executive Officer of MacMillan Bloedel Limited.	July 1994
Gregson, Brian D. (1)(3) Vancouver, British Columbia	Director	Corporate Director. Prior to July 1995 was Chairman of Barbican Properties Inc. and prior to that Senior Executive Vice President of the Royal Bank of Canada.	July 1994
Lawrence, R.J. (Jack) (1)(2) Toronto, Ontario	Director	Chairman of Lawrence & Company Inc. since November 1995. Prior thereto held various offices with Nesbitt Burns Inc. and its predecessors, most recently as Vice-Chairman of Nesbitt Burns Inc.	January 1995
Lipton, Jeffrey M. (2)(3) Calgary, Alberta	Director	President of NOVA since September 1994. Prior thereto Senior Vice President and Chief Financial Officer of NOVA; prior to February 1994 was Senior Vice President of Novacor Chemicals Inc.; prior to December 1993 held various positions with E.I. duPont de Nemours & Co.	February 1994
Morton, David (2)(3) Montreal, Quebec	Director	Corporate Director. Formerly Chairman and Chief Executive Officer of Alcan Aluminum Limited from 1989 to 1993 and Chairman until May 1995.	January 1995
Newall, J.E. (Ted), O.C. (2) Calgary, Alberta	Chairman of the Board and Director	Chief Executive Officer and Vice Chairman of NOVA.	February 1994
Poole, A. Terence (1) Calgary, Alberta	Director	Senior Vice President and Chief Financial Officer of NOVA since 1994. Prior thereto Senior Vice President, Corporate Development and Controller of NOVA since September 1993; prior thereto Vice President and Controller of NOVA.	February 1994
Sweeney, Graham D. (1)(2)(3) Sarnia, Ontario	Director	Corporate Director. Formerly President and Chief Executive Officer of Dow Chemical Canada Inc. from April 1993 to October 1995. Prior thereto held various senior executive positions with The Dow Chemical Company.	July 1994

Aitken, Bruce Auckland, New Zealand	Vice President, Asia-Pacific	Vice President, Asia-Pacific of the Company and Managing Director of Methanex New Zealand Limited since December 1997. Prior thereto Marketing Director of Methanex New Zealand Limited since December 1995. Prior thereto Vice President, Corporate Development of the Company.
Britton, Ronald W. North Vancouver, British Columbia	Vice President, North America	Vice President, North America of the Company since June 1995 and prior thereto held various positions with Bayer A.G.
Cole, Allan S. West Vancouver, British Columbia	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of the Company since August 1997. Prior thereto Senior Vice President and Chief Financial Officer of St. Mary's Cement Corporation.
Emmerton, W. James South Surrey, British Columbia	Vice President, General Counsel and Corporate Secretary	Vice President, General Counsel and Corporate Secretary of the Company since March 1997. Prior thereto a Partner of Just Solutions Mediation & Arbitration. Prior to December 1995 Vice President, General Counsel of John Labatt Limited.
Gordon, John K. Vancouver, British Columbia	Vice President, Human Resources and Corporate Affairs	Vice President, Human Resources and Corporate Affairs of the Company since August 1995. Prior thereto held similar positions with Bramalea Inc., Lac Minerals Ltd., KMART Canada Ltd., and Suncor Inc.
Krause, Rodolfo Ł. Santiago, Chile	Vice President, Latin America	Vice President, Latin America of the Company and General Manager, Methanex Chile Limited since April 1993 and prior thereto held various positions with Cape Horn Methanol Company.
Maqsood, Sajid M. North Vancouver, British Columbia	Vice President, Corporate Development	Vice President, Corporate Development of the Company since November 1995 and prior thereto held various positions with NOVA.
Wilson, Michael M. Bragg Creek, Alberta	Executive Vice President, Global Marketing and Logistics	Executive Vice President, Global Marketing and Logistics of the Company since June 1994 and prior thereto held various positions with Dow Chemical Company Inc.

- (1) Member of the Audit, Finance and Risk Committee.
- (2) Member of the Human Resources and Corporate Governance Committee.
- (3) Member of the Responsible Care and Public Policy Committee.

As at December 31, 1997, the directors and senior officers of the Company owned, directly or indirectly, or exercised control or direction over, less than 1% of the outstanding Common Shares of the Company.

Additional Information

The Company will provide to any person, upon request to the Corporate Secretary of the Company:

- (a) when the securities of the Company are in the course of a distribution pursuant to a short-form prospectus or a preliminary short-form prospectus has been filed in respect of a distribution of its securities,
 - (i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;
 - (ii) one copy of the comparative financial statements of the Company for the year ended December 31, 1997 together with the accompanying report of the auditors and one copy of any interim financial statements of the Company subsequent to the financial statements for the year ended December 31, 1997;
 - (iii) one copy of the Management Proxy Circular of the Company dated March 6, 1998 for the Annual General Meeting of the Company to be held on May 14, 1998; and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary short-form prospectus or the short-form prospectus and are not required to be provided under (i) to (iii) above; or
- (b) at any other time, one copy of any of the documents referred to in (a) (i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a securityholder of the Company.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Management Proxy Circular dated March 6, 1998 for the Annual General Meeting of the Company to be held on May 14, 1998. Additional financial information is provided in the consolidated financial statements of the Company for the year ended December 31, 1997. Copies of these documents, as indicated above, may be obtained upon request from:

W. James Emmerton

Vice President, General Counsel and Corporate Secretary Methanex Corporation 1800 Waterfront Centre 200 Burrard Street Vancouver, British Columbia V6C 3M1 Telephone: (604) 661-2600

Facsimile: (604) 661-2676

Dear Stakeholders,

For the past two years the theme section of our Annual Report has described methanol's various uses and expounded the virtues of Methanex as a preferred vehicle for investment in the commodity chemical sector in general, and clearly the preferred vehicle for investment in the methanol industry.

The 1995 report asked the question "What is methanol?", showing the various intermediate and end-uses of methanol. The inside back cover of this year's report is borrowed from 1995, emphasizing that, while neither methanol nor Methanex are names readily associated with consumer products, many items and materials adding to the quality of our everyday lives, or enhancing our environment, are derived from methanol.

In the 1996 report we asked the question "Why Methanex?", outlining key areas of the strategy we are implementing to enhance our leadership position, a position from which we derive value. During 1997 we continued to successfully implement this strategy.

This year's report makes a simple statement, "Differentiation in a commodity business." Perhaps some of our readers will judge this to be a contradiction of terms, but methanol is a commodity, and Methanex is different. So in this year's report we explore our unique characteristics and how these relate to one another and, importantly, how they are translated into value. We hope that it provides you with some useful insights into our Company.

The following page includes the two most popular communication tools for getting information on Methanex – our 1-800 number and our website which already receives up to two thousand "hits" per day.

You can also reach us by e-mail at invest@methanex.com, or write to us at the address on the outside back cover of this report.

We would appreciate any comments.

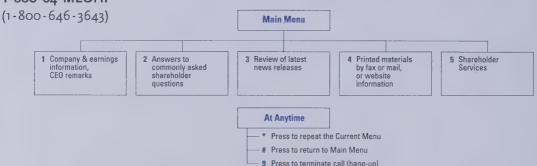
Sincerely,

Michael Macdonald Director, Investor Relations & Corporate Communications

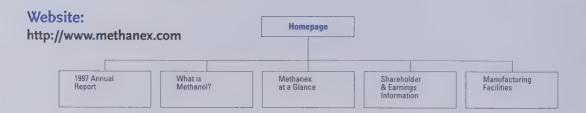
Methanex Investor Information Services:

Shareholder Direct:

1-800-64-MEOHF



- 1. Corporate Information company profile, latest earnings, earnings release dates and conference call information, CEO remarks
- 2. Questions/Answers responses to commonly asked questions
- 3. Latest News Releases
- 4. Fax & Printed Materials news releases, annual report and quarterly releases
- 5. Shareholder Services



- 1997 Annual Report
- What is Methanol?
- Methanex at a Glance slide presentation, weekly methanol pricing, MX stock quote, Responsible Care®, Why invest in Methanex?
- Shareholder & Earnings Information news releases, Q&A, conference call information, earnings release dates
- Manufacturing Facilities descriptions of our manufactring facilities around the world

Farmings	and (On a	Cash Flows	
carnings	and t	Operating	Cash Flows	

(thousands \$US)	1997	Q4	Q3	Q2	Q1	1996	1995	1994	1993
Revenue	1,299,380	321,902	307,975	336,830	332,673	945,707			
Less:			3-7/373	33-,-3-	33=1073	343,707	1,249,179	1,487,892	533,436
Cost of sales and operating									
expenses	930,850	249,733	222,674	224,969	233,474	734,122	848,256	9~C 1mm	
Depreciation and amortization	117,057	27,682	26,372	31,794	31,209	114,055		876,175	439,488
Interest expense	32,423	7,743	8,106	8,327	8,247	20,361	97,575	74,561	57,793
Interest and other income	(34,153)	(7,614)	(12,892)	(8,281)	(5,366)	(22,993)	32,090	30,476	23,712
Write-down of property, plant		(,, 1)	()	(0,201)	(3,300)	(22,993)	(22,257)	(5,333)	(2,945)
and equipment	_	_		_	_	105,000			
Other, net ¹	_		_	_		105,000	20.058	_	
Income and other taxes	51,215	7,900	13,563	15,298	14,454	3,014	39,058 62,719	77,386	- 161
Net earnings	201,988	36,458	50,152	64,723	50,655	(7,852)	191,738	434,627	5,461 9,927
Add (deduct):				5	3-7-33	(7)-3-7	.5.,,50	434,027	9,92/
Depreciation and amortization	117,057	27,682	26,372						
Write-down of property, plant	,,03/	2/,002	20,3/2	31,794	31,209	114,055	97,575	74,561	57,793
and equipment	_								
Deferred income taxes	40,818	8,128	8,568			105,000	_	_	_
Debt retirement cost	40,010	0,120	0,500	12,857	11,265	4,188	26,952	30,912	3,328
Other	10,665	5,086				_	36,543	_	
Cook flow from a service 2		3,000	2,935	106	2,538	8,460	9,647	4,668	(340)
Cash flow from operations ²	370,528	77,354	88,027	109,480	95,667	223,851	362,455	544,768	70,708
ncrease (decrease) in cash position	108,424	(17,228)	64,730	31,330	29,592	(15,753)	207 420	206 020	
EBIT ³	285,626	,,,,	-4//3-	21122	~3133~		207,420	106,919	(9,572)
EBITDA ³	402,683		,			120,523 234,578	323,090 420,665	542,489	39,100

⁽¹⁾ Refer to Consolidated Financial Statements for details

1,968,871

1,589,954

1,968,871

1,589,954

Consolidated Balance Sheets

Total liabilities and shareholders' equity

Total capitalization

(thousands \$US)									
Assets .	1997	0.	0-						
Code and a district of the second		Q4	Q3	Q2	Q1	1996	1995	1994	1993
Cash and cash equivalents	492,316	492,316	509,544	444,814	413,484	383,892	399,645	192,225	85,306
Receivables	241,656	241,656	229,816	250,052	256,357	207,847	173,045	339,006	84,825
Inventories	89,272	89,272	84,121	89,468	66,440	68,129	64,223	108,143	39,242
Prepaid expenses	12,364	12,364	13,324	15,329	7,830	9,237	13,351	12,519	12,054
Current assets	835,608	835,608	836,805	799,663	744,111	669,105	650,264	651,893	221,427
Property, plant and equipment	1,064,634	1,064,634	1,002,758	1,008,830	1,014,403	1,020,546	1,014,128	974,647	698,447
Other assets	68,629	68,629	66,506	78,479	79,085	81,513	84,209	61,753	49,911
Total assets	1,968,871	1,968,871	1,906,069	1,886,972	1,837,599	1,771,164	1,748,601	1,688,293	969,785
Liabilities and Shareholders' Equity									
Accounts payable and accrued liabilities	197,987	197,987	146,939	150,406	121,518	119,179	111,686	246,249	97,836
Current maturities on long-term debt				2 . ,		1.31.73	711,000	240,249	97,030
and other long-term liabilities	5,145	5,145	5,091	5,037	4,984	4,932	24,357	9,451	32,269
Current liabilities	203,132	203,132	152,030	155,443	126,502	124,111	136,043	255,700	130,105
Long-term debt	398,481	398,481	398,421	398,361	398,301	398,241	401,331	398,350	409,069
Other long-term liabilities	62,419	62,419	61,794	63,898	64,148	64,024	29,582	2,978	409,009
Deferred income taxes	113,366	113,366	105,238	96,671	83,813	72,548	68,360	41,408	10,496
Total liabilities	777,398	777,398	717,483	714,373	672,764	658,924	635,316	698,436	
Shareholders' equity	1,191,473	1,191,473	1,188,586	1,172,599	1,164,835	1,112,240	1,113,285	989,857	549,670 420,115
Total Bakifisha and								J-31037	7-0,113

1,906,069

1,587,007

1,886,972

1,570,960

1,837,599

1,563,136

1,771,164

1,510,481



1,688,293

1,397,658

969,785

861,453

1,748,601

1,534,245

⁽²⁾ Before changes in non-cash working capital

⁽³⁾ Includes interest income. Excludes write-down of property, plant, and equipment (1996) and debt retirement costs (1995)

Global Market Position

C-1	l	1/-	l	L	Daniel and
Sa	les	VO	ıume	DY	Region

(thousands of tonnes)	1997	1996	1995	1994	1993
North America	2,271	2,185	1,958	2,227	722
Asia-Pacific	2,368	1,945	1,609	1,288	1,275
Europe	1,537	1,292	1,139	905	864
Latin America	727	715	615	454	149
Total Sales	6,903	6,137	5,321	4,874	3,010
Sales of Methanex production	5,049	4,580	3,939	3,403	2,264
Sales of Methanex Purchased Product	1,854	1,557	1,382	1,471	746
Total world production (Source: CMAI')	25,913	24,718	23,157	21,973	20,321
World merchant market (Source: Industry composite est.)	16,800	16,100	15,400	14,800	14,400

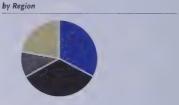
^{*}CMAI data sourced from 1997 World Methanol Analysis.

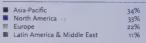
Supply - Methanol Capacity Additions

(thousands of tonnes)	Start-up	Capacity
Statoil, Norway	Q2 1997	830
Ar Razi III, Saudi Arabia	Q4 1997	850
PT Kaltim, Indonesia	Q1 1998	660
Meth IV, Trinidad	Q2 1998	550
Methanex, Chile III	Q2 1999	975
Titan, Trinidad	Q4 1999	850
Ar Razi IV, Saudi Arabia	Q4 1999	850

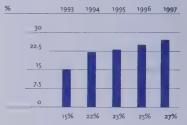
Note: Included in this table are only those significant projects known to Methanex to be either underway or probable before 2000.

1997 Sales Distribution





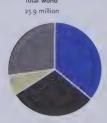
Methanex Market Share



1997 World Methanol Consumption

Total World

(tonnes)













	4										
	30%		41%		16%		13%		65%		76%
	36%		24%		50%		43%		20%		14%
Dit.	7%		10%		7%	E1	9%		0%		0%
	27%		25%		27%		35%		15%		10%
		36% 7%	30% 36% 36% 7%	30% 41% 36% 24% 10%	30% 41% 36% 24% 7% 10%	■ 30% ■ 41% ■ 16% ■ 36% ■ 24% ■ 50% ■ 7% ■ 10% 7%	30%	■ 30% ■ 41% ■ 16% ■ 13% ■ 36% ■ 24% ■ 50% ■ 43% ■ 7% ■ 9%	■ 30% ■ 41% ■ 16% ■ 13% ■ 36% ■ 24% ■ 50% ■ 43% ■ 7% ■ 9% ■	30% 41% 16% 13% 65% 36% 24% 50% 43% 20% 7% 10% 7% 9% 0%	30%

Regional Demand Growth 1993 - 1997

(thousands of tonnes)

_	1993	1994	1995	1996	1997
25,000					
20,000					- Contract
15,000	_				
10,000			i Taylan bilah		
5,000					1
0	1				man H

ites 96)	of World Market		
4%	32%	North America	Source: CMA
4%	31%	Europe	
1%	25%	Asia-Pacific	
7%	6%	Middle East	
0%	6%	Latin America	

Derivative Demand Growth 1993-1997

(thousands of tonnes) 1994 1995 1996



	(97/96)	Market		
Source: CMAI	4.1%	30%	MTBE	
	3.6%	36%	Formaldehyde	
	16.0%	7%	Acetic Acid	- 10
	4.2%	27%	Other	

Methanol in our lives

While neither methanol nor Methanex are names readily associated with consumer products, many items and materials...



...adding to the quality of our everyday lives, or enhancing our environment, are derived from methanol.

Inside this cover is an illustration that shows just how connected we are to methanol.

Methanex Supply Statistics

1997 Methanex Fact Book V

Methanol Production Data

(thousands of tonnes)	Nominal Capacity	1997	1996	1005	1004	
North America		.33/	1990	1995	1994	1993
Medicine Hat 1, Alberta	260	. 0 -				
Medicine Hat 2 (idled)1	270	182	219	230	239	
Medicine Hat 3		93	244	215	262	_
Kitimat, British Columbia	570	481	584	528	538	_
Fortier, Louisiana ²	500	480	436	409	498	521
Enron, Texas ³	400	316	248	314	100	_
			- 11	94	135	160
	1,730	1,552	1,742	1,790	1,772	681
New Zealand						
Waitara	530	510	549	523	501	533
Motunui DII	5004	401	371	371	456	249
Motunui DIII	700 ⁴	560	529	430	19	
Motunui DIV	700 ⁴	434	397	51		_
	2,430	1,905	1,846	1,375	976	782
Chile						
Chile I	800	766	853	841	874	807
Chile II	925	869	14	_	_	_
	1,725	1,635	867	841	874	807
Total	5,885	5,092	4,455	4,006	3,622	2,270
Gasoline Production	720 ⁵	14	178	290	467	604
Nominal Capacity ⁶	5,885	6,020	5,230	5,230	4,930	3,730
Mothanal Equipolant Connects Hall						
Methanol Equivalent Capacity Utili Number of Employees	zation	85%	94%	89%	95%	98%
Lost Time Incidents		841	881	876	820	616
	()	1	5	2	1	2
Productivity (thousands of tonnes, Revenue (thousands/employee)	remployee)	6.05	5.06	4.57	4.42	3.69
revenue (inousands/employee)		\$1,545	\$1,073	\$1,426	\$1,815	\$866

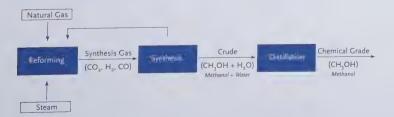
- (i) The Medicine Hat 2 plant can be restarted within 3 months.

 (2) Methanex's 70% share of total capacity
 (3) Enron no longer supplies product to Methanex as of February 12, 1996
 (4) Assumes crude methanol consumed to produce chemical grade methanol
 (5) Assumes all crude methanol consumed to produce gasoline
 (6) Norminal capacity figures are adjusted by the idling of the Medicine Hat 2 plant in mid 1997, and the start up of the
- (7) Capacity utilization figures incorporate both plant down-time and reductions in operating rates. All gasoline production converted to methanol equivalent basis. Excludes Enron production

Purchased Product (thousands of tonnes)	1998 Estimate	1997	1996	1995	1994	1993
Leuna, Germany	0	120	323	350	380	348
Fortier, Louisiana	120	136	67	95	33	0
Texaco, Delaware	0	0	62	226	165	172
CMC, Trinidad	500	416	453	484	536	24
Other (US & Europe)		1,182	652	227	357	202
Total purchased product	_1	1,854	1,557	1,382	1,471	746

(1) Amount of product purchased in 1998 will be a function of market dynamics and Methanex's cost to produce versus external supply options.

Simplified Process Flowchart

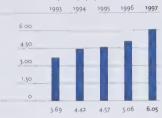






Productivity

(thousands of tonnes per employee)



Methanol - General Information

1997 Methanex Fact Book vi

Methanol Price History	1997	1996	1995	1994	1993
	\$/tonne \$/gailon	\$ / tonne \$ / gallon			
Methanex average realized	187 0.56	149 0.45	222 0.67	288 0.87	136 0.41

onal Contract Pricing \$ / tonne Jan 93		97 Jan 98 \$ / gallon	\$ / tonne '86	'88 '9	o '92	'94 '96	'98 \$ / gallor
s / tollie jail 93	94 95 90	9/ 12/190 4/84/10/1					
600		1.80	600				1.80
500	A	1.50	500				1.50
400	P	1.20	400				1.20
300		0.90	300				0.90
200		0.60	200		Λ-	11	0.60
100		0.30	100	V V	V ha	\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\	0.30
0		0					0
Gulf urope	Sc	urce: Tecnon				Source	: ICIS

Methanol

Primary Derivatives	Derivative	End Use products	
Formaldehyde	•Urea	•particleboard, medium density fibre board (MDF)	
	•Phenol	oriented-strand board (OSB), plywood	
	•1,4-butanediol	•PVC solvent	
	•Acetal resins	•automotive and plumbing moulding resins	
	•MDI	 rigid urethane foam (insulation) and mouldings 	
Acetic Acid	•VAM	•adhesives, latex paints	
	Acetic anhydride	•pharmaceuticals	
	•Terephthalic acid	•polyester fibre and plastic bottles	
	•Solvent esters	•paints, coatings, inks	
	•Chloroacetic acid	•herbicides, pharmaceuticals	
MTBE and Fuels	•MTBE blended with gasoline	•motor vehicle fuel	
	•MEG (Methanol / Ethanol / Gasoline)	•motor vehicle fuel (Brazil)	
	•M85 / M100	•alternative motor vehicle fuels	
Other Derivatives	Methyl methacrylate	•sheet for signs, windows, auto parts	
	Methylamines	•poultry feed additive, pesticides, biocides	
	•Chloromethanes	•silicones, solvents, agricultural chemicals	
	Dimethyl terephthalate	•polyester fibres and resins (bottles, sheet)	
	•Direct uses	solvent, windshield wash, disinfectant	

Conversion Formulas

Production Conversions (unit of methanol consumed per unit of product by weight; Source: CMAI)

Acetic Acid	0.55	Dimethyl Ether (DME)	1.5	MTBE	0.36
Carbon Tetrachloride	0.22	Formaldehyde (37%)	0.45	Polyacetal	1.5
Chloroform	0.29	Methyl Acrylate	0.39	Synthetic Gasoline	2.56
Methyl Chloride	0.68	Methylamines	1.45	Triethylene Glycol MME	0.22
DMT (non-retained)	0.38	Methyl Methacrylate	0.39	Single Cell Protein	1.8 – 2.6
Diethylene Glycol MME	0.3	Methylene Chloride	0.41	, and the second	

Volume and Mass Convers	ions	Energy Conversions	
1 Tonne methanol =	332.6 US Gallons = 7.92 Barrels	1 MMBTU =	1.055 GJ
Tonne gasoline =	362 US Gallons = 8.62 Barrels	1 GJ =	0.948 MMBTU
1 Barrel =	42 US Gallons	1 MMBTU =	1 MSCF
1 Gallon =	1 US Gallon or 3.785 Litres		(assuming approximate caloric value of
1 Tonne =	1.1025 Short Ton		pipeline gas = 1000 BTU/SCF or 0.039 GI/nm
1 Short Ton =	o.907 Tonne	BTU =	British Thermal Unit
1 Kilogram =	2.205 Pounds	G) =	Gigajoule = 10° joules
1 MSCF =	26.8 nm³	MSCF =	Thousand Standard Cubic Feet
100 \$ per tonne MeOH =	\$0.30 per gallon MeOH	nm³ =	Normal Cubic Meter

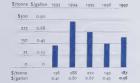
Key Ratios

		1997	1996	1995	1994	1993
	re price (\$US)	7-93	9.00	7.31	13.00	8.00
Value Ratios	Earnings per share (EPS)	1.10	0.45	1.14	2.20	0.06
	Cash flow per share (CFPS)* EBITDA per share Book value per share Price to earnings (P/E) Price to cash flow Price to EBITDA Price to Dook value Market value per tonne produced	2.02	1.18	1.90	2.76	0.41
		2.19	1.24	2.21	3.12	0.57
		6.48	5.89	5.85	5.01	2.46
		7.22	19.88	6.43	5.91	137.38
		3.93	7.60	3.84	4-71	19.29
		3.62	7.25	3.31	4.16	14.0
		1.22	1.53	1.25	2.59	3.2
		273	382	345	699	604
	Production per share (US gallons)	9.64	7.83	7.05	6.18	4.4
Liquidity	Quick ratio	3.67	4.84	4.31	2.13	1.40
	Current ratio	4-11	5-39	4.78	2.55	1.70
	Working capital (000's)	632,476	544-994	514,221	396,193	91,32
Profitability	Return on equity (ROE)	17.5%	7.7%	20.4%	53.6%	2.39
	Return on capital employed (ROCE)	13.3%	6.3%	15.8%	39.8%	3.09
Debt	Asset coverage	4-94	4-45	4.15	4.14	2.20
	EBIT interest coverage	8.52	3-52	9.31	15.04	1.43
	EBITDA interest coverage	12.01	6.85	12.13	17.10	3-55
	Debt to capitalization	25%	26%	27%	29%	51%
	Debt per tonne of methanol produce		89	105	113	194
	Net debt	(93,835)	14,349	21,315	215,576	356,032

(1) Excludes write-down of property, plant, and equipment (1996) and debt retirement costs (1995); (2) Operating cash flows before changes in non-cash working capital; (3) Includes capitalized interest

Note: All share amounts are based on weighted average of shares outstanding

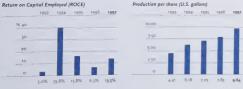
Average Realized Methanol Price



Earnings and Cash Flow per share



Production per share (U.S. gallons)



Debt / Capitalization





Definitions and Notes



Return on Average Equity (ROE)



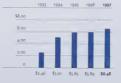
Debt/Capitalization = Long-term Debt

Total Capitalization Capitalization = Long-term Debt + Shareholders' Equity

Debt per tonne produced



Book Value per share



Common Share Data

(millions of shares except where noted)	1997	Q4	Q ₃	Q2	Q1	1996	1995	1994	1993
Net earnings per share (\$US)1	1.10	0.20	0.27	0.34	0.27	0.45	7.14	2.20	0.06
Weighted average shares outstanding	183.8	183.8	186.0	188.0	189.2	189.0	190.3	197.5	170.5
Year end shares outstanding	175.6	175.6	179-5	183.3	189.5	189.1	189.0	194.8	171.3
Canadian trading volume	107.8	24.1	20.9	30.2	32.6	131.0	266.1	277.2	57-7
US trading volume	23.1	6.3	4.0	5.4	7-4	43-5	154.9	266.3	13.6
Total trading volume	130.8	30.4	24.9	35-5	40.0	174-5	421.0	543-5	71.3
NOVA ownership	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9	0
Remaining public float	128.6	128.6	132.6	136.3	142.6	142.2	142.1	147.9	171.3
Trading as a % of remaining public float	102%	24%	19%	26%	28%	123%	296%	368%	42%
Average share price \$Canadian	12.56	12.18	12.27	12.52	13.27	10.84	12.35	17.32	9.40
Average share price \$US	9.04	8.62	8.83	9.00	9.72	7.91	8.93	12.70	7.23
Closing share price \$Canadian	11.35	11.35	11.60	12.80	11.65	12.45	10.00	18.25	10.38
Closing share price \$US	7.93	7.94	8.38	9.13	8.44	9.00	7.31	13.00	8.00
Market capitalization									
(millions \$Canadian at period end)	1,993	1,993	2,082	2,346	2,208	2,355	1,890	3,555	1,777
Market capitalization									
(millions \$US at period end)	1,392	1,392	1,504	1,672	1,599	1,702	1,382	2,532	1,370

(1) Excludes write-down of property, plant, and equipment (1996) and debt retirement costs (1995)

Price & Volume History: Canadian Markets (TSE, ME)

Methanex Stock Trading History

80		†† . ,				20
60		+11 11+1				15
40		† T	· + · · · · · · · · · · · · · · · · ·	71++1++	+1++1	10
20 ↓ † † .	1141,	Land J	144	andlum.		5

Price & Volume History: U.S. Market (NASDAQ)

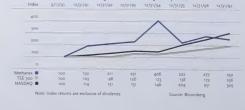
Millions of shares per month	June 93 Dec. 93	June 94 Dec. 94	June 95 Dec. 9	5 June 96	Dec. 96	June 97	Dec. 97	Share Pri \$ US
80								20
60								15
40		1+1	1, , ,					10
20 +	*++1*+1*11+;		111111111	+ ± ± T ± + + +	++1++	11+++1	++11	,
0		. to dillilli						0
Volume					~~~	Sourc	e: Bloomberg	

1997 Trading Range History

		ymbol MX Exchanges	Volume
	\$Cdn High	Low	(millions)
Q1	14.40	11.60	32.6
Q2	13.45	11.40	30.2
Q3	13.40	11.05	20.9
Q4	13.40	11.00	24.1
1997	14.40	11.00	107.8

	Trading Sym The Nasdaq SUS High	Volum (millions	
	305 Filgh	Low	(millions)
Q1	10.63	8.44	7.4
Q2	9.75	8.13	5.4
Q3	9-75	7-94	4.0
Q4	9.50	7.63	6.3
1997	10.63	7.63	23.1

MX Performance Relative to TSE 300 and NASDAQ Composite



Methanol in our lives

While neither methanol nor Methanex are names readily associated with consumer products, many items and materials...

FROM ACETIC ACID

FROM FORMALDEHYDE

FROM OTHER DERIVATIVES

IN FUELS

...adding to the quality of our everyday lives, or enhancing our environment, are derived from methanol.

Inside this cover is an illustration that shows just how connected we are to methanol.

11%

Global Market Position

1997	1996	1995	1994	1993
2,271	2,185	1,958	2,227	722
2,368	1,945	1,609	1,288	1,275
1,537	1,292	1,139	905	864
727	715	615	454	149
6,903	6,137	5,321	4,874	3,010
5,049	4,580	3,939	3,403	2,264
1,854	1,557	1,382	1,471	746
25,913	24,718	23,151	21,973	20,321
16,800	16,100	15,400	14,800	14,400
	2,271 2,368 1,537 727 6,903 5,049 1,854 25,913	2,271 2,185 2,368 1,945 1,537 1,292 727 715 6,903 6,137 5,049 4,580 1,854 1,557 25,913 24,718	2,271 2,185 1,958 2,368 1,945 1,609 1,537 1,292 1,139 727 715 615 6,903 6,137 5,321 5,049 4,580 3,939 1,854 1,557 1,382 25,913 24,718 23,151	2,271 2,185 1,958 2,227 2,368 1,945 1,609 1,288 1,537 1,292 1,139 905 727 715 615 454 6,903 6,137 5,321 4,874 5,049 4,580 3,939 3,493 1,854 1,557 1,382 1,471 25,913 24,718 23,151 21,973

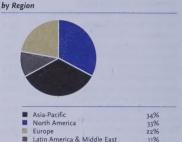
^{*}CMAI data sourced from 1997 World Methanol Analysis.

Supply - Methanol Capacity Additions

(thousands of tonnes)	Start-up	Capacity
Statoil, Norway	Q2 1997	830
Ar Razi III, Saudi Arabia	Q4 1997	850
PT Kaltim, Indonesia	Q1 1998	660
Meth IV, Trinidad	Q2 1998	550
Methanex, Chile III	Q2 1999	975
Titan, Trinidad	Q4 1999	850
Ar Razi IV, Saudi Arabia	Q4 1999	850

Note: Included in this table are only those significant projects known to Methanex to be either underway or probable before 2000.

1997 Sales Distribution



Methanex Market Share



1997 World Methanol Consumption

(tonnes) Total World North America Asia-Pacific Middle East Europe Latin America 8.4 million 25.9 million 8.1 million 6.4 million 1.6 million 1.4 million MTBE and Fuels 30% 41% 16% 65% Formaldehyde 36% 24% 50% 43% 20% 10 14% Acetic Acid 333 7% 88 10% (10) 7% 85 9% 0% 0% Other uses 25% 27% 10% 35% 15%

Regional Demand Growth 1993-1997

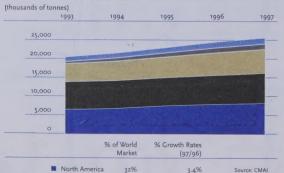
■ Europe

Asia-Pacific

■ Middle East

Latin America

Source: CMAI



31%

25% 6%

4.4%

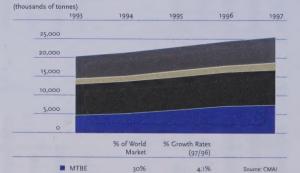
8.7% 5.0%

Derivative Demand Growth 1993-1997

■ Formaldehyde

Acetic Acid

Other



36%

3.6%







Responsible Care: A Total Commitment®

As a proud member of the chemical industry, Methanex Corporation subscribes to the Responsible Care® initiative which brings with it specific moral obligations regarding the responsible management of chemicals and chemical products.

All Methanex Corporation operations encourage the responsible development, introduction, manufacture, transportation, storage, handling, distribution, use and ultimate disposal of chemicals and chemical products so as to minimize adverse effects on human health and well-being and on the environment.

Responsible Care® at Methanex means:

- that its operations do not present an unacceptable level of risk to its employees, its customers, the public or the environment;
- providing relevant information on the hazards of chemicals to its customers, urging them to use and dispose of products in a safe manner, and making such information available to the public on request;
- Responsible Care® is an early and integral part of the planning process leading to new products, processes and plants;
- increasing the emphasis on understanding existing products and their uses and ensuring that a high level of understanding of new products and their potential hazards is achieved prior to and throughout commercial development;
- · complying with all legal requirements which affect its operations and products;
- · responsiveness and sensitivity to legitimate community concerns;
- working actively with and assisting governments and selected organizations to foster and encourage equitable and attainable standards.

® Trademark of the Canadian Chemical Producers' Association, used under license by Methanex.